

2012 Workbook

2012 Illinois Update

CONTENTS

University of Illinois Personnel Administering the Schools	IL-ii
Instructor Biographical Information	IL-iii
Welcome	IL-iv
Internal Revenue Service, Serving Illinois	IL-v
Illinois IRS Points of Contact	IL-vii
IRS Phone Directory for Illinois Practitioners	IL-xi
Social Security Administration Offices in Illinois.....	IL-xv
2012 Illinois Update	IL-1

2012 Workbook

University of Illinois Personnel Administering the Schools

Director



Terri
Kobel

Editor and Associate Director



Gary
Hoff

Instructors



Jerry
Brune



Debbie
Held



Ted
Knapp



Les
Marti



George
Moore



Tom
O'Saben



Sam
Phillips



Bob
Rhea



Catherine
Riddick



Jacqueline
Rutledge



Steve
Siebers



Sue
Voth



Rich
Walden

INSTRUCTOR BIOGRAPHICAL INFORMATION

Jerry Brune has been an instructor for the Tax School and has served as an author and reviewer for the annual *University of Illinois Federal Tax Workbook* since 1999. Jerry was employed as a revenue agent with the IRS for 31 years before retiring. Jerry has taught accounting and business taxation courses at Illinois Central College and the University of Illinois at Springfield, respectively. Jerry is an EA and CPA, and he currently works for a CPA firm in Crest Hill, Illinois. His alma mater is St. Joseph's College in Rensselaer, Indiana.

Debbie Held has been an instructor with the Tax School since 2000. She has also served as a chapter author and reviewer for the *University of Illinois Federal Tax Workbook*. She is a graduate of Sangamon State University (University of Illinois at Springfield). She has been employed by the IRS since 1979, spending time as a revenue agent, appeals officer and most recently as a project manager for the Small Business Self Employed Communications, Liaison, and Disclosure Division. She previously taught various accounting courses at Lincoln Land Community College for 18 years. She is a certified public accountant (CPA) and resides in Raymond, Illinois where her family farms.

Ted Knapp has been affiliated with the Tax School since 1990 as an instructor and has also served as a reviewer for the *University of Illinois Federal Tax Workbook*. He recently retired from the IRS after 35 years. He worked as a revenue agent in both the SBSE Division and the Examination Division of the Federal, State, and local Government Division. Ted is an EA and he currently works for a CPA firm in Mt. Vernon, Illinois. He is a graduate of Illinois College. In his spare time, he is a sports official for basketball, football, and softball.

Les Marti received his B.S. from the University of Illinois. He is an enrolled agent (EA) and has been in the income tax planning and preparation business since 1987. Les has owned and operated Marti Consulting, located in Gibson City, Illinois, since 1997 and specializes in farm and small business returns. Les has been an instructor and content reviewer for the Tax School since 2005.

George Moore began his work with the Tax School as an instructor representing the IRS, and then in 1990 he began his current affiliation with the schools as an instructor. He has served as a chapter author and reviewer for the *University of Illinois Federal Tax Workbook*. George was employed by the IRS as a revenue agent and manager for 16½ years. George is a certified public accountant (CPA) in private practice in Belleville, Illinois.

Tom O'Saben has been an instructor for the Tax School since 2009. During that time, he has also been a presenter with the National Association of Tax Professionals where he served as a Training Specialist developing curriculum, writing textbooks, and instructing at educational seminars. Tom's practice, established in 1991, provides tax services for approximately 1,000 clients. Tom holds degrees in Political Science and Finance from Southern Illinois University Edwardsville. He is a Certified Financial Planner (CFP) and an enrolled agent (EA).

Sam Phillips is a native of southern Illinois and a graduate of Southern Illinois University in Carbondale. Sam has been affiliated with the Tax School as an instructor and reviewer of the *University of Illinois Federal Tax Workbook* since 2007. He is a CPA and has been in public accounting since 1988. Sam worked for two CPA firms in Southern Illinois and now owns his practice with locations in Salem and Breese. His special interests are in the areas of small business and agricultural taxation. Sam is married and resides in Salem, Illinois.

Bob Rhea has been associated with the Tax School since 2005 as an instructor and as a reviewer for the *University of Illinois Federal Tax Workbook*. Since 1984, he has assisted farmers with accounting, tax, and consulting services in west-central Illinois through the University of Illinois FBFM program. Bob is the national executive director for his professional organization, NAFBAS, and previously was that group's national president. Bob received his bachelor's degree from Western IL University and Master's degree from the University of Illinois. Bob is an enrolled agent (EA) and he lives in Camp Point with his wife, Debbie, sons Tracy and Casey, and daughter Ashley.

Catherine Riddick has been associated with the Tax School since 2008 as an instructor and as a reviewer for the *University of Illinois Federal Tax Workbook*. She is a CPA and licensed attorney with nearly 25 years of experience in tax planning and preparation. She worked for one of the large CPA firms in the Chicago area for 10 years and has had her own CPA firm in LaGrange, Illinois for the past 15 years. Catherine received a bachelor's degree from Old Dominion University in Norfolk, Virginia and a law degree from Washington and Lee University in Lexington, Virginia.

Jacqueline Rutledge has been an instructor for Fall Tax School since 1986. She has also served as an author and reviewer for the *University of Illinois Federal Tax Workbook*. She is a graduate of Clarke College in Dubuque, Iowa and St. Ambrose College in Davenport, Iowa. Jacque is a self-employed certified public accountant (CPA) in Fulton, Illinois.

Steve Siebers is an attorney in Quincy, Illinois. He began his affiliation with the University of Illinois Tax School in 2008 and serves as a reviewer for the *University of Illinois Federal Tax Workbook* and a substitute instructor for the Fall Tax School. He currently has a busy law practice and concentrates on estate planning, estate administration, business transactions and corporate law. He obtained his CPA certificate in 1976 and graduated from the University of Illinois College of Law in 1979.

Sue Voth has been affiliated with the Tax School as an instructor since 2002. Sue has been a national presenter for National Association of Tax Professionals (NATP) seminars and has served as an author and reviewer for the *University of Illinois Federal Tax Workbook* since 2002. She taught for the Missouri Society of CPAs' Tax Schools using the *University of Illinois Federal Tax Workbook* and teaches for Premier Tax Seminars Inc. in the states of Washington and Pennsylvania using the same materials. Sue is an enrolled agent (EA) and owns a tax practice in Quincy, Illinois.

Rich Walden has served as chapter author and reviewer for the *University of Illinois Federal Tax Workbook*, and has been an instructor with the Fall Tax School since 1982. A graduate of Blackburn College, Rich was employed by the IRS as a revenue agent for 6½ years. He is a certified public accountant (CPA) with a private practice in Carlinville, Illinois, and serves in various board member roles for several banks, a software company, and a community hospital.

2012 Workbook

Information About University of Illinois Tax School



Sponsor:

University of Illinois at Urbana-Champaign
College of Agricultural, Consumer and
Environmental Sciences

Cooperating Agencies:

The Internal Revenue Service
Illinois Department of Revenue

History

- 1940 First schools in DeKalb and Springfield.
- 1940s Enrollees mostly farmers doing their own returns.
- 1950s Enrollees include tax practitioners-IRS agents begin to help with instruction.
- 1960s Schools more oriented to tax practitioners; workbooks and other references provided annually.
- 1969 Illinois state income tax law enacted; State Department of Revenue joins program.
- 1970s Attendance grew from just under 2,000 to approximately 4,000 enrollees. Basic Income Tax Preparation telenet courses were offered for the first time.
- 1980s Attendance grew from 4,000 to over 5,300 enrollees. Number of schools offered grew to 26. An estimated 1 million federal and .75 million state tax returns were prepared by enrollees. Specialized seminars on S-Corporations and Small Business Issues were held.
- 1990s Attendance grew from approximately 5,400 to over 6,200 enrollees. The number of schools grew to 31. Satellite programs were introduced in 1994 and expanded to video-Telnet programs in 1997 and 1998, serving more than 1,700 participants.
- 2000s Attendance remains steady at approximately 6,000 participants. In-depth seminars which cover participant-requested topics were initiated in 2001. The name of the program changed from Farm Income Tax School to University of Illinois Tax School in 2003. Internet-based seminars were initiated in 2008.
- 2010s Fall Tax School expanded to three days of instruction in several locations throughout Illinois.

Participant Input:

Participant input is essential for planning seminars and materials that continue to meet needs. Surveys completed and returned by participants help select topics, determine scheduling, prepare *Federal Tax Workbook* chapters, and initiate other programmatic activities.

Please take the time to complete the program evaluation.

Resources:

The *Federal Tax Workbook* contains useful information throughout, even though the instructors may not refer to all of it. The information is the latest available as of early September, when the workbook was printed. The chapters contain the latest rules and regulations, with explanations and illustrations that apply to individual, farm, and small business income tax situations. The explanations are not intended to be all-inclusive and will not cover many unusual situations.

Philosophy:

Mission Statement for the University of Illinois Tax School
To be a self-supported provider of quality tax education, including training, materials, and support.

A large number of citizen-taxpayers depend on the professional competence of tax practitioners. Equally, the IRS depends upon tax practitioner competence in preparing returns, so the taxpayer pays no more or no less than the tax due.

The University of Illinois Tax School is committed to providing tax practitioners with the most up-to-date information regarding tax laws and their practical application for clients. The University of Illinois publishes the annual *Federal Tax Workbook* with the assistance of nationally-recognized authors who help write some of the chapters. Fall Tax Schools are planned and presented to help tax practitioners maintain their professional competence and fulfill CPE requirements.

It is the responsibility of the practitioners to also study and learn from other sources of information. When unusual cases are encountered, it is wise to seek counsel from reliable sources. Some of these sources are provided during the Fall Tax Schools.

We are pleased to have you participate in the 2012 University of Illinois Fall Tax Schools

Acknowledgments

The service and support provided by these people helped make possible the presentation of the 2012 Tax Schools, including the preparation and mailing of the 2012 Workbook and related materials: Mindy Heaton, Donyetta Turner, Zainab Adam, Crystal Zulauf, Gretchen Wieshuber, Pat Mayer, Galen Kelly, Emily Peterson, Lauren Schick, Kevin Urbain, Michael Spencer, and staff members in the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana-Champaign.

2012 Workbook

2012 Workbook

Internal Revenue Service

Serving Illinois

LOCATION	ADDRESS	PHONE
Bloomington	301 S. Prospect Road Bloomington, IL 61704	309-661-0032 FAX 309-662-4792
Champaign	310 W. Church Street Champaign, IL 61820	217-398-5210 FAX 217-398-5414
Chicago	230 S. Dearborn Street Chicago, IL 60604	312-292-4912 FAX 312-292-4915
Davenport, IA	101 W. 2nd Street, 6th Floor Davenport, IA 52801	563-326-6052 FAX 563-328-4452
Decatur	306 W. Eldorado Street Decatur, IL 62525	217-862-6015 FAX 217-429-0843
Downers Grove	2001 Butterfield Road, 12th Floor Downers Grove, IL 60515	630-493-5291 FAX 630-493-5404
Downers Grove	1901 Butterfield Road Downers Grove, IL 60515	630-493-5903 FAX 630-493-5910
Fairview Heights	380 Fountain Office Court Fairview Heights, IL 62208	618-632-2567 FAX 618-632-5357
Galesburg	2066 Windish Drive Galesburg, IL 61401	309-345-4158 FAX 309-342-8246
Mount Vernon	105 South Sixth Street Mt. Vernon, IL 62864	618-632-2567 FAX 618-632-9410
Olympia Fields	3615 Park Drive, Building VI Olympia Fields, IL 60461	708-503-3540 FAX 708-503-7555
Orland Park	14479 S. John Humphrey Dr. Orland Park, IL 60462	708-873-8310 FAX 708-346-7878

2012 Workbook

Internal Revenue Service

Serving Illinois (Continued)

LOCATION	ADDRESS	PHONE
Peoria	2415 W. Cornerstone Ct. Peoria, IL 61614	309-671-7264 FAX 309-693-1117
Quincy	3701 East Lake Centre Drive Quincy, IL 62305	217-224-8208 FAX 217-224-9877
Rockford	211 S. Court Street, Rm. 101 Rockford, IL 61101	815-334-7026 FAX 815-987-4271
Schiller Park	5100 River Road Schiller Park, IL 60176	847-671-7541 FAX 847-671-7518
Springfield	3101 Constitution Drive Springfield, IL 62704	217-862-6015 FAX 217-862-6037
Vernon Hills	945 Lakeview Pkwy., Ste. 130 Vernon Hills, IL 60061	847-918-4832 847-918-4847 FAX 847-918-1904

Illinois IRS Subject Matter Points of Contact

Automated Collection Service (ACS)

W&I	800-829-7650
SBSE, LMSB, TE/GE	800-829-3903
ATIN	512-460-7898

Adoptive parents file Form W-7A to obtain a temporary number for adopted children. The temporary number is needed so that the adoptive parents can claim dependency exemption and child care credit.

Audit Reconsiderations

800-829-1040

This is a procedure where the result of a completed examination may be reconsidered. The taxpayer must establish good reasons why the case should be reopened, such as non-receipt of audit letter or additional evidence not previously available.

Bankruptcy

Examination	312-292-2835
--------------------	---------------------

Questions related to ongoing examinations of taxpayers who have filed bankruptcy should be directed to the Examination Bankruptcy Coordinator. Typical issues include when and why tax assessments are made and how the filing of a bankruptcy petition impacts the ability to commence and continue an examination.

Collection	312-292-2831
-------------------	---------------------

Requests for information or advice on issues relating to a violation of the automated stay imposed on the IRS when a taxpayer files for bankruptcy or general questions.

Banks, Post Offices, and Libraries

800-829-2765

Post offices and libraries provide an alternative location for taxpayers to obtain tax forms and publications. Only banks that also participate in the e-file program are recruited for this program.

Centralized Authorization File

Fax: 855-214-7519

Claims

800-829-1040

A claim is an amended tax return reflecting a lower net tax liability and a refund. The amended return generally may be filed within three years of the due date or two years from when the tax was paid, whichever is later. Claims may either be accepted as filed or examined.

Congressional Affairs Program

Springfield Taxpayer Advocate (case related)	217-862-6382
Chicago Taxpayer Advocate (case related)	312-292-3800
Governmental Liaison (non-case related)	312-292-3520

2012 Workbook

CP 2000 Notices

Generated from Brookhaven, Ogden, or Philadelphia	800-829-8310
Generated from Atlanta, Austin, or Fresno	800-829-3009

Criminal Investigation (CI) Division

Office of Special Agent in Charge – Chicago	312-292-4500
CID Referral (report tax violations)	800-829-0433

EITC Subject Matter Expert

Northern Illinois	312-292-2202
Southern Illinois	217-862-6366

The amount of the credit as well as the amount individuals can earn and still be eligible for EITC is adjusted annually for inflation. Certain individuals who work but do not have any qualifying children may be eligible for the credit.

Electronic Federal Tax Payment System (EFTPS)

800-555-4477

Web: www.eftps.gov

EFTPS is a tax payment and reporting system sponsored by the Treasury Department. By using a telephone or personal computer, taxpayers can input their tax payment information and send it.

Electronic Returns Originator (ERO) Information

866-255-0654

Fax: 312-292-3331

Responds to inquiries regarding the electronic filing program (how to participate) and the various types of electronic programs available. Annually, a sample of preparers who electronically file tax returns are visited to ensure compliance, answer questions, and provide other requested assistance.

Employer Identification Numbers (EINs)

Get EINs through Business and Specialty Tax Lines	800-829-4933
---	--------------

Fax: 859-669-5760

Web: www.irs.gov

Employee Plans and Exempt Organizations Customer Service

(applications and determinations)	877-829-5500
-----------------------------------	--------------

Fax: 513-263-3756

This toll-free number is a centralized help desk in Cincinnati that is available for Taxpayers and employees in answering questions, or inquiries on status of application for exempt status.

Employee Plans Audit Closing Agreement Coordinator	312-292-3826
--	--------------

Employee Plans 403(b)/457 Coordinator	216-328-2887
---------------------------------------	--------------

Employee Plans 401(k) Coordinator	262-798-8366
-----------------------------------	--------------

2012 Workbook

Federal, State, and Local Governments Central Area Manager

**877-829-5500
847-671-7068**

The office of Federal, State and Local Governments of the IRS, Tax Exempt and Government Entities Operating Division works with federal agencies, quasi-government entities, state agencies, and local governments including U.S. possessions. Primary objective is to assist these agencies in complying with federal employment tax laws and information return reporting.

Financial Management Service (FMS)

800-304-3107

FMS will issue a TOP offset notice when a taxpayer's refund is offset for child support or a federal agency non-tax debt (e.g. student loans, VA loans, etc.). Refer taxpayers who have questions about the offset to the FMS Help Desk.

Innocent Spouse Coordinator

**312-292-2497
866-897-4270**

Taxpayers submit Form 8857 when they feel they are not responsible for their current or former spouse's tax liability. Detailed instructions are in *Publication 971*.

Magnetic Media

304-263-8700

National Distribution Center

800-829-3676

For obtaining forms and publications

Offers in Compromise

630-493-5344

Office of Professional Responsibility

313-234-1280

Preparers of federal income tax returns are bound by the ethical and due diligence principles contained in *Circular 230*. Identified situations contrary to these principles may be referred to the Office of Professional Responsibility.

Practitioner Priority Service

866-860-4259

Previously known as the Practitioner Hot-line, this office accepts calls only from practitioners. Handles call regarding accounts and procedures. The practitioner must have a valid power of attorney on file.

Practitioner Identification Number (PTIN) Issues

800-829-1040

Refund Inquiries (Automated Refund Information)

**800-829-4477
800-829-1954**

Web: www.irs.gov

Small Business Tax Workshops

Web: www.irs.gov

Small Business Community Website: www.irs.gov/smallbiz

General workshops for current and prospective small business owners are held at various times and locations throughout the state. Community organizations such as the Small Business Development Centers participate in STEP. Topics include record keeping, business use of the home, sole proprietorships, employment tax issues, etc.

2012 Workbook

Taxpayer Advocate Service National Hotline

877-777-4778

The Taxpayer Advocate Service is an IRS program that provides an independent system to assure that tax problems, which have not been resolved through normal channels, are promptly and fairly handled.

Taxpayers having an ongoing issue with the IRS that has not been resolved through normal processes, or taxpayers who have suffered or are about to suffer a significant hardship as a result of the application of the tax laws can contact the Taxpayer Advocate national hotline.

Taxpayer Advocate for Illinois

Springfield

217-862-6373

Chicago

312-292-3803

Each state has a Local Taxpayer Advocate. The local advocate is not a substitute for established IRS procedures or the formal Appeals process. The advocate cannot reverse legal or technical tax determinations. The local advocate is available to assist taxpayers meeting advocate criteria, serving as liaison with the practitioner community and congressional staff for their constituents and solicits feedback on recurring problems with the IRS systems and procedures.

Taxpayer Identification Number (TIN)

800-829-4933

Fax: 859-669-5760 (all 50 states)

Fax: 267-941-1040 (anywhere else)

Effective January 2, 2002, taxpayers can call the above toll-free number to get an EIN. Customer service representatives in three IRS service centers are available Monday-Friday from 7:30 a. m. – 5:30 p.m. local time. The taxpayer must have a completed Form SS4 prepared prior to calling. Upon completion of the call, the form must be mailed within 24 hours to the service center. Complete instructions are provided with Form SS4.

Wage Information Return System (WIRS)

Fax: 518-782-7806

Wrongful Levy Issue

312-292-2855

2012 Workbook

Illinois Directory

**Small Business Self-Employed
Stakeholder Liaison Division**

IRS TELEPHONE DIRECTORY for Practitioners

09/04/2012

The purpose of the IRS Telephone Directory for Practitioners is to assist members of the practitioner community as they attempt to resolve issues or concerns without circumventing normal channels that exist. Please note this information is only intended for tax professionals and is not to be shared with individual clients.

If you are unsure of who to contact or when to initiate a contact, an IRS Stakeholder Liaison can provide guidance and assistance. You can find your local liaison on IRS.gov, keyword search: “Stakeholder Liaison”.

2012 Workbook

Appeals

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Appeals Team Manager, Area 7 Team 14	Deborah McKissic	312-582-6861
Appeals Team Manager, Area 7 Team 15	John Leaver	312-582-6840

Area Counsel

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Tax Court Case Inquiries	Receptionist	312-368-8228
Bankruptcy and Collection Issues	Receptionist	312-368-8152
All Other Inquiries, Managing Counsel	Joseph Ferrick	312-368-8620

Criminal Investigation Special Agent in Charge

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Special Agent in Charge	Alvin Patton	312-292-4502

Lien Cases

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Centralized Lien Processing		800-913-6050

Industries (Retailers, Food & Pharmaceuticals)

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Territory Manager, Territory 2	Jolanta Sander	630-493-5372
Territory Manager, Territory 3	Catherine Vaughn	847-671-7080
Territory Manager, Territory 4	Susan Kass	630-493-5802

SB/SE Collection Division

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Program Manager, Chicago Territory	Christopher Love	630-493-5401
Program Manager, Downers Grove Territory	David Preston	630-493-5795
Program Manager, Milwaukee Territory	Timothy S. Sherrill	414-231-2404
Program Manager, St. Louis Territory	Beverly Morris	636-255-1280

SB/SE Collection, Office of Advisory, Insolvency & Quality

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Territory Manager, Insolvency	Joe Magana	312-292-2801

2012 Workbook

SB/SE Communications, Liaison and Disclosure, Governmental Liaison and Disclosure

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Governmental Liaison	Mark Waddell, acting	636-255-1356
Disclosure Manager	Lynda Dyer, acting	312-292-3522

SB/SE Communications, Liaison and Disclosure, Stakeholder Liaison

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Area Manager	Tom Sheaffer	312-292-2701

SB/SE Examination Division

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Program Manager, Territory 1 -Chicago IL	Mae Myers	630-493-5254
Program Manager, Territory 2 - Chicago IL	Paul Bender	651-312-7784
Program Manager, Territory 4 - Chicago IL	Bruce Wilson	312-566-4311
Program Manager, Milwaukee Territory	Daniel Sostock	414-231-2401
Program Manager, St. Louis Territory	Sam Anderson	314-612-4339
Program Manager, St. Louis	Brenda Kessel	636-255-1354
Program Manager, Kansas City, MO/KS Territory	Christina Sedlacek	913-722-7561
Program Manager, St. Paul Territory	Mark Primoli	651-312-7898

Tax Exempt/Government Entities (TE/GE)

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Area Manager, Employee Plans Great Lakes	Janice Gore	262-513-3465
Supervisory Internal RA, Fed. State & Local Govmnt	Valerie Hardeman	317-685-7648
Indian Tribal Governments Group Manager	Serina Halverson	402-233-7328
Supervisory Internal RA, Tax Exempt Bonds	Allyson Dodd	630-493-5081
Area Manager, Exempt Orgs, Great Lakes/Financial I	Renee Wells	312-566-3901

Taxpayer Advocate

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Local Taxpayer Advocate, Chicago	Selma Taylor	312-292-3800
Local Taxpayer Advocate, Springfield	Pam Bates	217-862-6348

2012 Workbook

Treasury Inspector General for Tax Administration (TIGTA)

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Assistant Special Agent in Charge	Dwaine Brinson	312-554-8751

Wage & Investment Field Assistance Territory Manager

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Territory Manager, Northern IL	Kathryn Rodman	312-566-3201
Territory Manager, Southern IL	Marilyn S. White	317-685-7525

Wage & Investment Stakeholder Partnership, Education & Communication

<u>Title</u>	<u>Name</u>	<u>Phone</u>
Area Director	Kathleen Bushnell	512-499-5308

2012 Workbook

Social Security Administration Offices in Illinois (partial list)

City	Address	Telephone
Alton	Room 103 Fed Bldg., 501 Belle St., 62002	855-285-6006
Aurora	1325 N. Lake St., 60506	877-274-5412
Belleville	Lake Christine Center, 1670 Lebanon Ave., 62221	877-405-0471
Bloomington	230 W. Lake St., 60108	800-772-1213
Bloomington	207 N. Williamsburg Dr., 61704	877-405-4640
Carbondale	250 W. Cherry St., Room 104, 62901	877-714-0377
Champaign	101 S. Country Fair Dr., 61821	877-819-2593
Chicago (Loop)	77 W. Jackson Blvd. Suite 300, 60604	800-772-1213
Danville	400 N. Vermilion St., 61832	866-331-5394
Decatur	606 W. Pershing Rd., 62526	888-619-4773
E. St. Louis	Room 104 Fed Bldg., 650 Missouri Ave., 62201	877-700-4849
Effingham	1207 Network Centre Dr., Suite 2, 62401	888-397-4543
Elgin	790 Fletcher Dr., 60123	877-405-0435
Evanston	2116 Green Bay Rd., 60201	800-772-1213
Freeport	4 E. Linden St., 61032	855-628-1591
Galesburg	2060 Windish Dr., 61401	877-405-7659
Harrisburg	18 Veterans Dr., 62946	866-366-3980
Hillside	230 N. Mannheim Rd., 60162	800-772-1213
Joliet	552 Houbolt Rd., 60431	866-783-7302
Kankakee	630 E. Oak St., 60901	855-807-8801
Litchfield	1107 W. Ferdon, 62056	877-319-3077
Mt. Vernon	Federal Bldg., 105 S. 6th St., 62864	866-931-2549
North Riverside	Rm. 600, 7222 W. Cermak Rd., 60546	800-772-1213
Palos Hills	10718 S. Roberts Rd., 60465	800-772-1213
Pekin	2801 Broadway, 61554	877-405-0499
Peoria	815 W. Pioneer Parkway, 61615	877-319-6039
Peru	915 Wenzel Rd., 61354	855-245-0640
Quincy	2401 Lind St., 62301	888-279-5999
Rockford	502 E. Jefferson St., 61107	877-628-6570
Rock Island	2350 4th Ave., 61201	866-414-9166
Springfield	3112 Constitution Dr., 62704	877-279-9504
Sterling	3512 E. Lincolnway, Suite C, 61081	866-789-1093
Waukegan	1930 N. Lewis Ave., 60087	800-772-1213
West Frankfurt	1005 Factory Outlet Dr., 62896	888-223-8869
Woodridge	7440 Providence Dr., 60517	866-303-2724
Woodstock	2450 Lake Shore Dr., 60098	877-405-7828
Vincennes (Ind.)	606 Veterans Dr., 47591	888-456-9531

2012 Workbook

2012 Illinois Update

Same-Sex Civil Union Filing Update	IL-1	Schedule 1299	IL-15
Earned Income Credit.....	IL-3	Form IL-1040: Subtractions from Income.....	IL-21
Household Employment.....	IL-7	Residency Issues	IL-25
Recent Legislation — Senate Bill 397.....	IL-9	Illinois Special Depreciation.....	IL-35
Recent Legislation — Senate Bill 400.....	IL-14	Online Account Management.....	IL-38
Amazon Tax Update.....	IL-14		

SAME-SEX CIVIL UNION FILING UPDATE

On January 31, 2011, Governor Patrick Quinn signed into law the Illinois Religious Freedom Protection and Civil Union Act.¹ This Act, which went into effect on June 1, 2011, permits same-sex and opposite-sex couples to enter into civil unions. Parties to civil unions were granted most of the same legal obligations, responsibilities, protections, and benefits as married couples under Illinois law.

Under Illinois law, “marriage” is available to opposite-sex couples but not same-sex couples. However, a “civil union” under Illinois law is available to both. For most purposes, Illinois law makes a civil union equivalent to marriage, subject to any limitations required under the federal Defense of Marriage Act.²

JOINT RETURNS

The Illinois Income Tax Act (IITA) §502(c) allowed the filing of joint state returns only by couples who file joint federal returns. After the passage of the Civil Union Act, the Illinois Department of Revenue (IDOR) announced that couples in civil unions were not permitted to file Illinois joint returns. Parties to civil unions are prohibited from filing joint federal returns under the federal Defense of Marriage Act. In November 2011, Illinois reversed its decision. Couples in **same-sex** civil unions **must** file a **paper** Form IL-1040 using either the married filing jointly (MFJ) or married filing separately (MFS) filing status. They may **not** file as single or head of household for Illinois. A recent letter from the IRS Chief Counsel’s office indicates that couples in **opposite-sex** civil unions may file joint federal returns.³

Civil union partners who choose to file a joint Illinois return become jointly liable for the taxes. Each partner’s share of any joint refund may be applied against unpaid liabilities of the other partner.

If only one of the partners in a civil union is an Illinois resident and they choose to file a joint Illinois return, both partners are treated as residents.

¹ Illinois Public Act 96-1513.

² *Family Law — A Guide to the New Illinois Civil Union Law*. Wilson, Richard A. May 2011. [www.isba.org/ibj/2011/05/aguidetothewillinoiscivilunionlaw] Accessed on Aug. 10, 2012.

³ [http://law.scu.edu/blog/samesextax/file/IRS%20Civil%20Union%20letter.pdf] Accessed on Jul. 3, 2012.

Federal “As-If-Married” Return Required

Because same-sex civil union partners are not allowed to file MFJ or MFS returns for federal tax purposes, the following rules apply for Illinois tax purposes.⁴

- If civil union partners choose to file an MFJ Illinois return, they must complete a federal “as-if-MFJ” return for Illinois purposes only.
- If civil union partners choose to file MFS Illinois returns, they must complete federal “as-if-MFS” returns for Illinois purposes only.
- The “same-sex civil union” status box on Form IL-1040, Step 1, line D, must be marked.
- The “as-if-married” federal return must be attached to the Illinois return.

Following are some examples of situations that same-sex couples may encounter while completing their federal “as-if-married” return. These examples are listed on IDOR’s website. IDOR will continue to update the list as situations arise.⁵

- All federal instructions for the filing status must be followed. Some federal adjustments and credits are limited according to the filing status. For example, couples that complete a federal “as-if-MFJ” return must compute their federal earned income credit (EIC) using the income of both partners. If they elect to complete a federal “as-if-MFS” return, they cannot claim the EIC, federal deductions for student loan interest, and higher education tuition.

Note. See the “Earned Income Credit” section in this chapter for an example illustrating a same-sex couple claiming the Illinois EIC.

- In order to complete the federal “as-if-married” return, some adjustments are needed that are not covered by the federal instructions. For example, if employer-provided health insurance covers a same-sex partner, premiums paid for the partner’s coverage would not be included in taxable wages shown on Form W-2 if federal law treated the couple as spouses. However, the premiums **are** included in taxable wages for partners in a same-sex civil union. Therefore, the cost of these premiums should be excluded from taxable wages when completing the federal “as-if-married” return. The employer should be contacted to determine the amounts needed to make this adjustment. This information should be kept in the couple’s records and sent to IDOR upon request.

Note. This example does not specifically address situations in which some or all of the premiums are paid by the employer without withholding from the employee. However, the same principle applies, such that the amounts included in the employee’s federally taxed wages would be excluded from taxable wages on the employee’s “as-if-married” federal return to the extent that they would have been excluded if federal law recognized the civil union as a marriage. The example also does not address the situation in which the employee’s partner is a dependent for federal income tax purposes.⁶ In that situation, any withholding or subsidies paid by the employer for healthcare costs for the partner would be excluded from federally taxed wages in the same manner as they would if federal law recognized the civil union as a marriage. Thus, the employee’s taxable wages on the pro-forma return would be identical to the taxable wages on the actual federal return.⁷

⁴ *Informational Bulletin*. January 2012. Illinois Department of Revenue. [<http://tax.illinois.gov/Publications/Bulletins/2012/FY-2012-05.pdf>] Accessed on Mar. 16, 2012.

⁵ *Same-Sex Civil Unions*. Illinois Department of Revenue. [<http://tax.illinois.gov/Individuals/Same-Sex-Civil-Unions.htm>] Accessed on May 4, 2012.

⁶ IL General Information Letter IT 12-0003-GIL (Feb. 7, 2012).

⁷ A taxpayer may be able to take a dependency exemption for a civil-union partner as a qualifying relative. See IRC §152(d).

2012 Workbook

Note. A civil union partner may want to file a new Form IL-W-4, *Employee's Illinois Withholding Allowance Certificate*, if excluding these premiums from income causes too much tax to be withheld by the employer.

- If one of the partners has a **net capital loss** for the current year or a net capital loss carryover to the current year and offsets it against the other partner's capital gain on a recomputed joint return, the capital loss may not be carried over to any other year. This is true even if the partner files separately in that year or files a joint return with a different spouse.
- If one of the partners has a federal net operating loss (NOL) for the current year or a federal NOL carryback or carryover to the current year and uses that loss to offset income of the other partner on a recomputed joint return, the loss may not be carried over to any other year. This is true even if the partner files separately in that year or files a joint return with a different spouse.

EARNED INCOME CREDIT

Illinois taxpayers that qualify for the federal EIC also qualify for the Illinois EIC. The Illinois EIC increased from 5% of the federal tax credit for tax years ending prior to 2012 to 7.5% of the federal credit for tax years beginning in 2012. Beginning on or after January 1, 2013,⁸ the amount increases to 10% of the federal credit.

Note. Information on eligibility criteria for the federal EIC can be found in 2012 Volume C, Chapter 2: Credits.

Note. A news release from Governor Quinn's office states that the EIC increase puts \$105 million into working families' pockets, which is the largest increase in the Illinois EIC since its inception.⁹ This is also expected to stimulate business growth in Illinois. A 2006 study by the Brookings Institution found that every dollar a family saves through the EIC translates into \$1.58 of activity in local economies.¹⁰

The Illinois EIC is calculated on Schedule ICR, *Illinois Credits*.

Example 1. Bailey Boggs and Fiona Hardy are Illinois residents. They entered into a same-sex civil union in June 2011. Bailey and Fiona have three dependent children. After consulting with their tax preparer, Vanessa, the couple files a joint Illinois return for 2011. Vanessa prepares an "as-if-MFJ" federal return for Bailey and Fiona, which shows an EIC of \$1,267. They are entitled to an Illinois EIC of \$63 ($\$1,267 \times 5\%$).

Portions of Bailey and Fiona's IL-1040 and Schedule ICR follow. The Illinois EIC is calculated in Step 3 of Schedule ICR.

⁸ S.B. 400, Pub. Act 97-0652.

⁹ *Fact Sheet: Illinois Earned Income Tax Credit (EITC)*. Office of Governor Pat Quinn. [www2.illinois.gov/gov/Documents/Press%20Releases/EITC/01.10.12%20EIC%20Fact%20Sheet.pdf] Accessed on Apr. 12, 2012.

¹⁰ Ibid.

2012 Workbook

For Example 1



Illinois Department of Revenue 2011 Form IL-1040

Individual Income Tax Return

or for fiscal year ending ____/____/____

Step 1: Personal Information

Do not write above this line.

A Social Security numbers in the order they appear on your federal return

444 - 55 - 6677
Your Social Security number

123 - 55 - 9999
Spouse's Social Security number

B Personal information

Bailey

Your first name and initial

Fiona

Spouse's first name and initial

456 Juniper Lane

Mailing address (See instructions if foreign address)

Oak Place

City

Boggs

Your last name

Hardy

Spouse's last name - only if different

Apartment number

IL

State

61111

ZIP or Postal Code

Foreign Nation, if not United States (do not abbreviate)

C Filing status (see instructions)

☐ Single or head of household ☒ Married filing jointly ☐ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☒

Step 2:

Income

1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4 (Whole dollars only) **1** 40,000.00
2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ **2** .00
3 Other additions. **Attach** Schedule M. **3** .00
4 **Total income.** Add Lines 1 through 3. **4** 40,000.00

Step 3:

Base Income

5 Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return. **5** .00
6 Illinois Income Tax overpayment included in U.S. 1040, Line 10 **6** .00
7 Other subtractions. **Attach** Schedule M. **7** .00
Check if Line 7 includes any amount from Schedule 1299-C. ☐
8 Add Lines 5, 6, and 7. This is the total of your subtractions. **8** .00
9 **Illinois base income.** Subtract Line 8 from Line 4. **9** 40,000.00

Step 4:

Exemptions

10 **a** Number of exemptions from your federal return 5 **X** \$2,000 **a** 10,000.00
b If someone can claim you as a dependent, see instructions. **X** \$2,000 **b** .00
c Check if 65 or older: ☐ You **+** ☐ Spouse **=** **X** \$1,000 **c** .00
d Check if legally blind: ☐ You **+** ☐ Spouse **=** **X** \$1,000 **d** .00
Exemption allowance. Add Lines a through d. **10** 10,000.00

Step 5:

Net Income

11 **Residents: Net income.** Subtract Line 10 from Line 9. **Skip** Line 12. **11** 30,000.00
12 **Nonresidents and part-year residents:**
Check the box that applies to you during 2011 ☐ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR. **12** .00

Step 6:

Tax

13 **Residents:** Multiply Line 11 by 5% (.05). **13** 1,500.00
Nonresidents and part-year residents: Write the tax from Schedule NR. **14** .00
14 Recapture of investment tax credits. **Attach** Schedule 4255. **14** .00
15 **Income tax.** Add Lines 13 and 14. Cannot be less than zero. **15** 1,500.00

Step 7:

Tax After Non-refundable Credits

16 Income tax paid to another state while an Illinois resident. **Attach** Schedule CR. **16** .00
17 Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR. **17** .00
18 Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C. **18** .00
19 Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15. **19** .00
20 **Tax after nonrefundable credits.** Subtract Line 19 from Line 15. **20** 1,500.00

Staple W-2 and 1099 forms here

Staple your check

IL-1040 front (R-12/11)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.



2012 Workbook

For Example 1

	21	Tax after nonrefundable credits from Page 1, Line 20	21	<u>1,500.00</u>
Step 8:	22	Household employment tax. See instructions.	22	<u>.00</u>
Other Taxes	23	Use tax on internet, mail order, or other out-of-state purchases from UT Worksheet or UT Table in the instructions. Do not leave blank.	23	<u>21.00</u>
	24	Total Tax. Add Lines 21, 22, and 23.	24	<u>1,521.00</u>
Step 9:	25	Illinois Income Tax withheld. Attach W-2 and 1099 forms.	25	<u>1,600.00</u>
Payments and Refundable Credit	26	Estimated payments from Forms IL-1040-ES and IL-505-I, including overpayment applied from 2010 return	26	<u>.00</u>
	27	Pass-through entity tax payments. Attach Schedule K-1-P or K-1-T.	27	<u>.00</u>
	28	Earned Income Credit from Schedule ICR. Attach Schedule ICR.	28	<u>63.00</u>
	29	Total payments and refundable credit. Add Lines 25 through 28.	29	<u>1,663.00</u>
Step 10:	30	Overpayment. If Line 29 is greater than Line 24, subtract Line 24 from Line 29.	30	<u>142.00</u>
Result	31	Underpayment. If Line 24 is greater than Line 29, subtract Line 29 from Line 24.	31	<u>.00</u>

Enter on line 31 for underpayment

2012 Workbook

For Example 1



Illinois Department of Revenue

2011 Schedule ICR

Attach to your Form IL-1040

Illinois Credits

IL Attachment No. 23

Read this information first

Complete this schedule only if you are eligible for the

- Illinois Property Tax Credit
- K-12 Education Expense Credit
- Earned Income Credit (EIC)

- You must complete IL-1040 through Line 15 and Schedule CR, if applicable, before completing this schedule.
- The total amount of Illinois Property Tax Credit and K-12 Education Expense Credit cannot exceed tax. Only the Earned Income Credit may exceed tax.

Step 1: Provide the following information

Bailey Boggs

Your name as shown on your Form IL-1040

444 - **55** - **6677**

Your Social Security number

Step 2: Figure your nonrefundable credit

- | | | | |
|---|---|---|------------------|
| 1 | Write the amount of tax from your IL-1040, Line 15. | 1 | <u>1,500</u> .00 |
| 2 | Write the amount of credit for tax paid to other states from your IL-1040, Line 16. | 2 | <u>.00</u> |
| 3 | Subtract Line 2 from Line 1. | 3 | <u>1,500</u> .00 |

Section A - Illinois Property Tax Credit (See instructions for directions on how to obtain your property number)

- | | | | | |
|---|---|--|----|------------------|
| 4 | a | Write the total amount of Illinois Property Tax paid during the tax year for the real estate that includes your principal residence. | 4a | <u>.00</u> |
| | b | Write the property number for the property listed above. | 4b | <u></u> |
| | c | Write the property number for an adjoining lot, if included in Line 4a. | 4c | <u></u> |
| | d | Write the property number for another adjoining lot, if included in Line 4a. | 4d | <u></u> |
| | e | Write the portion of your tax bill that is deductible as a business expense on U.S. income tax forms or schedules, even if you did not take the federal deduction. | 4e | <u>.00</u> |
| | f | Subtract Line 4e from Line 4a. | 4f | <u>.00</u> |
| | g | Multiply Line 4f by 5% (.05). | 4g | <u>.00</u> |
| 5 | | Compare Lines 3 and 4g, and write the lesser amount here. | 5 | <u>.00</u> |
| 6 | | Subtract Line 5 from Line 3. | 6 | <u>1,500</u> .00 |

Section B - K-12 Education Expense Credit

Note You must complete the **K-12 Education Expense Credit Worksheet** on the back of this schedule and **attach** any receipt you received from your student's school.

- | | | | | |
|---|---|---|----|---------------|
| 7 | a | Write the total amount of K-12 education expenses from Line 13 of the worksheet on the back of this schedule. | 7a | <u>.00</u> |
| | b | You may not take a credit for the first \$250 paid. | 7b | <u>250.00</u> |
| | c | Subtract Line 7b from Line 7a. If the result is negative, enter "zero." | 7c | <u>.00</u> |
| | d | Multiply Line 7c by 25% (.25). Compare the result and \$500, and write the lesser amount here. | 7d | <u>.00</u> |
| 8 | | Compare Lines 6 and 7d, and write the lesser amount here. | 8 | <u>.00</u> |

Section C - Total Nonrefundable Credit

- | | | | |
|---|--|---|------------|
| 9 | Add Lines 5 and 8. This is your nonrefundable credit amount. Write this amount on Form IL-1040, Line 17. | 9 | <u>.00</u> |
|---|--|---|------------|



For Example 1

Schedule ICR — Page 2

Step 3: Figure your refundable credit

Earned Income Credit

10 a Write the amount of federal EIC as shown on your U.S. 1040, Line 64a; U.S. 1040A, Line 38a; or U.S. 1040EZ, Line 8a.

10a 1,267.00

b Multiply the amount on Line 10a by 5% (.05).

10b 63.00

c Illinois residents: Write 1.0.

Nonresidents and part-year residents: Write the decimal from Schedule-NR, Line 48.

10c 1.0

d Multiply Line 10b by the decimal on Line 10c.

10d 63.00

11 Write the amount from Line 10d here. This is your Illinois Earned Income Credit. Write this amount on Form IL-1040, Line 28.

→ **11** 63.00

Note. Bailey and Fiona would not be eligible for the Illinois EIC if they completed a federal “as-if-MFS” return. For more information, see the “Same-Sex Civil Union Filing Update” section earlier in this chapter.

INJURED SPOUSE

If a married couple files a joint federal return, in most cases they must also file a joint Illinois return. However, if one of the spouses is an injured spouse, they can elect to file separate Illinois returns. If separate returns are filed, each of the spouses may claim the Illinois EIC. In this situation, the total federal credit reported on line 10a of Schedule ICR for both spouses cannot exceed the EIC amount claimed on the joint federal return.¹¹

HOUSEHOLD EMPLOYMENT¹²

Form UI-WIT, *Combined Return for Household Employers*, was discontinued effective January 1, 2011. Different forms are now used to report the two types of taxes.

- Unemployment insurance contributions are reported to the Illinois Department of Employment Security using Form UI-HA, *Return for Household Employers—Unemployment Insurance Contributions*.
- Illinois income tax withholding is reported to IDOR. Household employers can now report the income tax withheld from employees on line 22 of Form IL-1040, *Illinois Individual Income Tax Return*.

¹¹ 2011 Schedule ICR Instructions.

¹² IDOR Pub. 121, *Illinois Income Tax Withholding for Household Employees*.

2012 Workbook

WHO IS A HOUSEHOLD EMPLOYEE?

A household employee is someone paid to do domestic work in or around the taxpayer's home. Household employees can be full-time or part-time employees who are paid hourly, daily, weekly, or by the job. Some examples of household employees are as follows.

- Babysitter
- Caretaker
- Cleaning person
- Driver
- Health aide
- Housekeeper
- Nanny
- Private nurse
- Yard worker

The worker is **not** the taxpayer's employee in the following circumstances.

- The worker controls how the work is done. This person usually provides their own tools and offers services to the general public in an independent business.
- An agency provides the worker and controls what work is done and how it is done.

Note. Illinois's definition of household employees mirrors that found in IRS Pub. 926, *Household Employer's Tax Guide*.

WITHHOLDING ILLINOIS INCOME TAX

Generally, it is necessary to withhold Illinois income tax for an Illinois employee if:

- The employer withholds federal income tax from the employee's wages, or
- The employer and the employee enter into a voluntary withholding agreement.

Form IL-W-4

The household employee must complete Form IL-W-4, *Employee's Illinois Withholding Allowance Certificate*. The employee indicates the number of allowances that they are entitled to claim on this form. If the employee does not complete this form, the employer should withhold income tax as if the employee were single with no withholding allowances.

Form W-2

Employers must issue federal Form W-2, *Wage and Tax Statement*, to their household employees before February 1 of each year. Form W-2 should **not** be sent to IDOR. Instead, copies should be kept in the employer's records for three years and sent to IDOR only upon request.

REPORTING AND PAYING WITHHOLDING TAX

Beginning on January 1, 2011, taxpayers who employ household employees and who are eligible to file federal Schedule H, *Household Employment Taxes*, may file and pay the Illinois withholding income tax **annually** on Form IL-1040, line 22. Taxpayers who use this method of paying withheld taxes on household employees should adhere to the following instructions.

- The Illinois income tax withheld for household employees should **not** be reported on Form IL-941, *Illinois Withholding Income Tax Return*.
- The Illinois income tax withheld for household employees should **not** be paid with Form IL-501, *Payment Coupon*.

Employers who currently file Form IL-941 only to report household employee income tax withholding and who would like to convert to the option of reporting the taxes annually on line 22 of Form IL-1040 must notify IDOR that they will no longer be reporting withholding on Form IL-941. IDOR can be notified by calling 217-785-3707. Employers who do not inform IDOR may be subject to penalties and collection action.

Employers who do not qualify to report and pay withholding tax on line 22 of Form IL-1040 must use Form IL-941 for this purpose. For more information see the instructions to Form IL-941. Employers must register with IDOR online at tax.illinois.gov or by completing Form REG-1, *Illinois Business Registration*.

RECENT LEGISLATION — SENATE BILL 397

On December 16, 2011, Governor Quinn signed a comprehensive tax bill, S.B. 397 (Pub. Act 97-0636). The major provisions in this Act are described below.

NET LOSS DEDUCTION

The general rule in IITA §207(a) for partnerships, corporations, trusts, and estates is that Illinois net losses incurred in tax years ending on or after December 31, 2003, may be carried forward for 12 years. However, Pub. Act 096-1496, enacted on January 13, 2011, suspended the use of an Illinois net loss deduction by C corporations for tax years ending on or after January 1, 2011, and prior to December 31, 2014. NOLs incurred by a C corporation during the suspension period can be carried forward and used after the suspension period expires. Form IL-1120, *Corporation Income and Replacement Tax Return*, must be filed in order to carry the loss forward to another year. In determining the number of years a loss may be carried forward, tax years ending after December 31, 2010, and prior to December 31, 2014, are not counted.¹³

S.B. 397 modified the temporary net loss deduction suspension enacted in January 2011 by allowing a partial deduction. **For tax years ending on or after December 31, 2012, and prior to December 31, 2014, NOL deductions are capped at \$100,000.**

Partnerships, S corporations, trusts, and estates are not subject to the limitations on net loss carryovers.

ESTATE TAX EXEMPTION

Illinois deviated, or “decoupled,” from the federal estate tax exemption in 2009, lowering the state exemption to \$2 million per person from the federal exemption level of \$3.5 million.

In 2010, Illinois had no estate tax. However, Illinois reinstated its estate tax for decedents dying after December 31, 2010. The Illinois estate tax applies to every Illinois resident as well as those individuals who own property in the state.

¹³ IDOR Practitioners Meeting, Feb. 3, 2012. [www.revenue.state.il.us/LegalInformation/Practqna/2012QandA.pdf] Accessed on Mar. 19, 2012.

2012 Workbook

For persons who died in 2011, the Illinois estate tax exemption was \$2 million. This is based on the “state death tax credit” calculated under IRC §2011, as it would have been computed on December 31, 2001. **S.B. 397 increases the amount of the Illinois estate tax exemption over a 2-year period.** A comparison of the Illinois and federal exemption amounts is shown in the following table.

Year of Death	Illinois Estate Tax Exemption	Federal Estate Tax Exemption
2011	\$ 2 million	\$ 5 million
2012	3.5 million	5.12 million
2013 or after	4 million	1 million ^a

^a The federal estate tax exemption was increased by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which sunsets at the end of 2012. If Congress does not act, the federal estate tax exemption reverts to \$1 million in 2013.

Because the federal estate tax exemption is higher than the Illinois exemption for 2011 and 2012, some estates may be exempt from federal estate tax but liable for Illinois estate tax. For example, tentative taxable estates with adjusted taxable gifts between \$3.5 million and \$5.12 million in 2012 will owe an Illinois estate tax without any corresponding federal estate tax liability. In such situations, the estate representative must file Illinois Form 700, *State of Illinois Estate & Generation Skipping Transfer Tax Return*. The Illinois return must also include a copy of the federal Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*, or any other form containing the same information, even though the federal return is not required by the IRS. The Illinois return is due nine months after the decedent’s death and should contain the same information required by the federal return, including all schedules, appraisals, wills, trusts, and attachments.¹⁴

Example 2. Calista dies in 2012 with a \$3.5 million estate that is composed entirely of Illinois property. She also made adjusted taxable gifts of \$1.58 million during her lifetime. Calista’s estate does not incur any federal estate tax liability upon her death because it does not exceed the federal estate tax exemption for 2012. However, the Illinois estate tax is calculated on her Illinois tentative taxable estate plus adjusted taxable gifts, for a total of \$5.08 million (\$3.5 million + \$1.58 million). The estate tax liability is \$209,124.¹⁵

QTIP Election

A qualified terminable interest property (QTIP) trust is a common type of marital trust that allows the grantor to provide for a surviving spouse and to maintain control of the trust’s asset distribution after the death of the surviving spouse. Use of a QTIP trust requires a tax election.

The marital deduction defers taxation on any assets in excess of the first spouse’s exclusion until the second spouse’s death. The marital deduction can be a gift to a trust that qualifies as a QTIP trust.¹⁶

¹⁴ Important Notice Regarding Illinois Estate Tax and Fact Sheet. [http://illinoisattorneygeneral.gov/publications/pdf/2012_Instruction_Fact_Sheet.pdf] Accessed on Mar. 26, 2012.

¹⁵ Result obtained using the 2012 Decedent Estate Tax Calculator available at the Illinois Attorney General’s website. [<http://illinoisattorneygeneral.gov/publications/estatetax.html>] Accessed on May 3, 2012.

¹⁶ See IRC §2056(b)(7).

2012 Workbook

For persons dying on or after January 1, 2009, the estate may make a QTIP election for Illinois purposes that is larger than the federal QTIP election. The Illinois QTIP is elected on a timely filed Illinois Form 700. The Illinois QTIP election follows federal statutes and rules for treatment of the elected property as passing to the surviving spouse and inclusion for Illinois purposes on any Illinois estate tax return of the surviving spouse. The maximum allowable Illinois QTIP election for decedents dying in 2012 is \$1.62 million,¹⁷ which is the difference between the federal and Illinois estate tax exemption amounts (\$5.12 million – \$3.5 million = \$1.62 million).

Example 3. Horace dies in 2012 with a \$5.12 million estate composed entirely of Illinois property. His estate does not incur any federal estate tax liability upon his death, because it does not exceed the federal estate tax exemption for 2012.

On the Illinois Form 700 filed for Horace's estate, an Illinois QTIP election of \$1.62 million is made. After subtracting the amount of Horace's QTIP election from his tentative taxable estate for federal tax purposes, Horace's Illinois tentative taxable estate is \$3.5 million. Because the Illinois estate tax exclusion is \$3.5 million for 2012, Horace's estate is not liable for Illinois estate tax.

If Horace's estate had not made the QTIP election, it would incur Illinois estate taxes of \$364,245.¹⁸

RESEARCH AND DEVELOPMENT CREDIT

The research and development (R&D) credit allows a tax credit of 6.5% of the **qualifying expenses** for increasing **qualified research activities** in Illinois. S.B. 397 extends the R&D credit for five years, until tax years ending prior to January 1, 2016.

Note. More information on the R&D credit can be found in the "Schedule 1299" section of this chapter.

REPLACEMENT TAX INVESTMENT CREDIT

Illinois has a replacement tax investment credit that is available to taxpayers who place qualified property in service during the tax year. The credit was originally set to expire on December 31, 2013, but S.B. 397 extends it for five years, until December 31, 2018.

To qualify for the replacement tax investment credit, the taxpayer must satisfy all the following criteria.¹⁹

- Have placed qualified property in service in Illinois within the tax year
- Continue to use the qualified property on the last day of the tax year
- Be primarily (more than 50%) engaged in manufacturing, mining coal or fluorite, or retailing

Qualified property for purposes of the credit includes property that:

- Is tangible,
- Is depreciable under IRC §167,
- Has a useful life of four or more years when it is placed in service in Illinois, and
- Is acquired by purchase as defined in IRC §179(d).

¹⁷ Illinois Form 700, *State of Illinois Estate & Generation Skipping Transfer Tax Return*.

¹⁸ Result obtained using the 2012 Decedent Estate Tax Calculator available at the Illinois Attorney General's website. [<http://illinoisattorneygeneral.gov/publications/estatetax.html>] Accessed on May 3, 2012.

¹⁹ Instructions to Form IL-477.

2012 Workbook

The credit is calculated as the sum of:

- 0.5% of the basis of qualified property placed in service in Illinois during the tax year, plus
- An additional credit of up to 0.5% of the basis of qualified property placed in service during the tax year, if the taxpayer's Illinois base employment increased over the preceding year, or if the business is new to Illinois.

The credit is available to C corporations, S corporations, partnerships, trusts, and exempt organizations subject to replacement tax. It is claimed on Form IL-477, *Replacement Tax Investment Credits*.

SMALL BUSINESS JOB CREATION TAX CREDIT

Illinois initiated the small business job creation tax credit in April 2010 to encourage the creation of new jobs in Illinois. The credit, which was scheduled to expire on June 30, 2011, was extended through **June 30, 2016**.

The credit can be taken against a company's withholding tax liability. The amount of the credit depends on the category of the business.

- For a **small business with 50 or fewer employees**, the credit equals \$2,500 per job if the position is filled for one year. One year after filling the new position, the business must provide supporting data online at **JobsTaxCredit.illinois.gov** in order to receive a tax credit certificate.
- For a **business that hired workers-trainees under the Put Illinois to Work Program**, half of the credit (\$1,250) is allowable if the employee works for at least six months after the hire date. The business may claim the other half of the credit if the employee works for at least 12 months after the hire date.

Note. The Put Illinois to Work program has ended, but the small business job creation tax credit for hiring these workers is still available.

The credit applies to each new Illinois job that meets the following conditions.

1. The job is created between July 1, 2010, and June 30, 2016.
2. The position must average at least 35 hours per week, or pay a full-time salary.
3. The job must pay at least \$10 per hour, or the equivalent annualized salary of \$18,200.
4. Depending on the category of the business, the job must be created and sustained for a certain period of time.
 - a. For small businesses, eligibility for the credit does not require that a particular individual employee is retained for one year, but rather that a new, full-time Illinois job is created and sustained for one year. The position **cannot** be filled by someone previously employed by the company.
 - b. For businesses that hired workers-trainees under the Put Illinois to Work Program, the individual hired into a full-time position must be employed for at least six months for the business to qualify for half of the credit. That same individual must be employed for at least 12 months for the business to qualify for the second half of the credit. The position **can** be filled by someone who previously worked for the business under the Put Illinois to Work program.

To receive the credit, eligible businesses must register online at **JobsTaxCredit.illinois.gov**. The Department of Commerce and Economic Opportunity administers the program and began issuing credit certificates on July 1, 2011. Eligible businesses claim the credit on their Forms IL-941, *Illinois Withholding Income Tax Return*.

ILLINOIS INDEPENDENT TAX TRIBUNAL

Effective July 1, 2013, IDOR will no longer address protests of notices of tax liability or deficiencies for all taxes that it administers. Instead, these duties will be assumed by an independent tax tribunal board.

Note. Governor Quinn signed House Bill 5192 on August 28, 2012, which provides the procedural and substantive details for the independent tax tribunal. Any taxpayer protesting \$15,000 or more in taxes can appeal by paying a \$500 fee, without first having to pay all taxes, penalties, and interest. Taxpayers can represent themselves or be represented by an attorney licensed in Illinois. The tribunal will consist of one chief judge and up to three associate judges who will be appointed by the governor and confirmed by the Senate. They will rule on disagreements between taxpayers and IDOR about the amount owed in income, sales, use, and other state taxes.²⁰ The final decisions of the tribunal can be appealed directly to the appellate court by the taxpayer or IDOR. The tribunal's principal offices will be located in Cook and Sangamon counties.

SEARS TAX INCENTIVES

S.B. 397 provides two tax incentives to Sears, Roebuck and Company.²¹

- The economic development for a growing economy (EDGE) tax credit allows Sears to take a credit against its employee withholding tax liability. To qualify, Sears must employ a minimum of 4,250 full-time employees at its corporate headquarters in Illinois, have a minimum of \$40 billion in total revenue, and make a capital investment of at least \$300 million. The EDGE credit is valued at \$15 million annually for 10 years beginning on July 1, 2012.
- An extension of a local economic development area (EDA) beginning January 1, 2012, allows Sears to recover approximately \$125 million in development costs. The EDA will be dissolved after Sears recoups its investment.

EXCHANGE APPORTIONMENT METHOD

S.B. 397 creates a new apportionment method for the Chicago Mercantile Exchange (CME) and other eligible entities. Income from electronic trades will be apportioned to Illinois at a 63.77% rate in 2012 and at 27.54% in subsequent years. The reduced rate reflects the belief that the majority of electronic trades represent out-of-state transactions. Transactions executed on the physical trading floor at the CME will continue to be apportioned 100% to Illinois.²²

CHAMPION LABS TAX CREDIT

S.B. 397 allows an EDGE tax credit for Champion Lab's Albion facility and for office relocation to Lake Forest. The estimated cost of the credit is \$350,000 each year for 10 years, starting in fiscal year 2013.²³

GASOHOL SALES TAX EXEMPTION

S.B. 397 extends the sales tax exemptions, credits, and deductions on gasohol and other agri-fuels for five years, to December 31, 2018.

²⁰ *Taxpayers Win New Independent Appeal of State Taxes*. Hinz, Greg. June 4, 2012. Crain's Chicago Business. [www.chicagobusiness.com/article/20120604/BLOGS02/120609962/taxpayers-win-new-independent-appeal-of-state-taxes] Accessed on Jun. 5, 2012.

²¹ *Job Retention and Tax Exemption Package Passed*. Illinois Senate Republicans. [www.senategov.state.il.us/index.php/in-the-news-mainmenu-123/recent-news/1064-job-retention-and-tax-exemption-package-passed] Accessed on Mar. 27, 2012.

²² Ibid.

²³ Ibid.

2012 Workbook

NEW MARKETS CREDIT

The new markets credit is allowed for qualified investments made in a community development entity. The credit, which was scheduled to expire in 2012, was extended to 2017 by S.B. 397.

LIVE THEATER PRODUCTION TAX CREDIT

S.B. 397 creates a live theater credit for pre-Broadway and long-run shows that are presented in Illinois. Credits are awarded on a first-come, first-served basis and are not to exceed an aggregate of \$2 million in any fiscal year.

AUTOMATIC SUNSET PROVISIONS

The automatic sunset provisions for any exemptions, tax credits, or deductions that were scheduled to expire in 2011, 2012, or 2013 are extended for another five years. This impacts the following credits.

- Tech-prep youth vocational programs credit for job training of eligible employees
- Affordable housing donation credit for donations to low-income housing projects
- Ex-felons jobs credit for qualified wages paid to certain ex-felons
- Veterans jobs credit for qualified wages paid to veterans
- River edge zone credit for qualified property placed in service
- Historic preservation in river edge redevelopment zone credit for costs of rehabilitating certain historic properties
- Angel investment credit for investments made directly in qualified new business ventures

Note. For more information on the above credits, see the “Schedule 1299” section of this chapter.

RECENT LEGISLATION — SENATE BILL 400

On January 10, 2012, Governor Quinn signed S.B. 400 (Pub. Act 97-0652). This Act raises the state’s earned income tax credit (covered in the “Earned Income Credit” section of this chapter) and provides a modest increase in the personal exemption for individual taxpayers.

STANDARD EXEMPTION

The personal exemption allowed for individual taxpayers increases from \$2,000 to \$2,050 beginning in the 2012 tax year. In subsequent years, the basic standard exemption will be \$2,050 plus a cost-of-living adjustment.

The additional exemption of \$1,000 for taxpayers who are age 65 or older or blind does not change.

AMAZON TAX UPDATE

On April 25, 2012, a Cook County Circuit judge struck down the Main Street Fairness Act (informally called the Amazon tax law), which required certain online retailers to collect Illinois sales tax on Internet sales. The judge said that the Illinois law violated the commerce clause of the U.S. Constitution and that it also conflicted with the federal Internet Tax Freedom Act.²⁴ The Amazon tax was signed into law in March 2011.

²⁴ *Illinois' Internet Tax Law Unconstitutional, Cook County Judge Says*. Karp, Gregory. Apr. 26, 2012. Chicago Tribune. [http://articles.chicagotribune.com/2012-04-26/business/ct-biz-0426-tax-ruling-20120426_1_affiliate-marketers-main-street-fairness-act-rebecca-madigan] Accessed on May 4, 2012.

2012 Workbook

Prior to the passage of the Amazon tax law, an online retailer was required to collect Illinois sales tax from Illinois customers only if the company had sufficient nexus with Illinois, such as a “brick and mortar” facility in the state or agents or representatives located in Illinois. Thus, companies without nexus, such as Amazon.com, were not required to collect Illinois sales tax. Online retailers could **voluntarily** collect and remit the sales tax, but most declined to do so.

The Act’s purpose was to collect more state sales tax while leveling competition between online retailers and those with a physical presence in the state. However, after it was enacted, some large Internet retailers, including Amazon.com, cut ties with Illinois affiliates, thereby eliminating revenue streams for an estimated 9,000 affiliate businesses.²⁵ In addition, two prominent Illinois businesses, CouponCabin.com and FatWallet.com, relocated their headquarters outside of Illinois.²⁶

IDOR, the defendant in the case, released a statement shortly after the court’s decision. “We respectfully disagree with the court’s ruling and are reviewing our appeal options with the attorney general’s office . . . We need to protect ‘brick and mortar’ stores from an unlevel playing field, and we need to recoup some of the estimated \$153 million that was not paid by online merchants prior to the law being implemented. The law was a bipartisan initiative that passed both houses of the General Assembly with overwhelming support.”²⁷

Note. It is important to note that the judge’s decision does not reduce the tax obligation of Illinois consumers. Illinois imposes use tax on retail purchases made for use or consumption within the state. The use tax applies whether items are purchased from Illinois retailers, from online retailers, or from out-of-state businesses and delivered to an Illinois address or brought back to Illinois for use. For more information, see the Illinois Update chapter in the 2011 *University of Illinois Federal Tax Workbook*.

SCHEDULE 1299

Illinois Schedule 1299 is filed by taxpayers who are entitled to various income tax subtractions and credits. There are different versions of Schedule 1299, as listed below.

- **Schedule 1299-A, *Tax Subtractions and Credits***, is completed by entities that are required to file Form IL-1065, *Partnership Replacement Tax Return*, or Form IL-1120-ST, *Small Business Corporation Replacement Tax Return*.
- **Schedule 1299-B, *Enterprise Zone or Foreign Trade Zone (or Sub-Zone) Subtractions***, is completed by entities that are required to file Form IL-1041, *Fiduciary Income and Replacement Tax Return*, or Form IL-1120, *Corporation Income and Replacement Tax Return*.
- **Schedule 1299-C, *Income Tax Subtractions and Credits***, is completed by taxpayers who file Form IL-1040, *Individual Income Tax Return*.
- **Schedule 1299-D, *Income Tax Subtractions and Credits***, is completed by corporations and fiduciaries that file Form IL-1120, *Corporation Income and Replacement Tax Return*; Form IL-1041, *Fiduciary Income and Replacement Tax Return*; or Form IL-990-T, *Exempt Organization Income and Replacement Tax Return*.

²⁵ Ibid.

²⁶ *Illinois Amazon Tax Is Illegal, Judge Rules*. Bouboushian, Jack. May 1, 2012. Courthouse News Service. [www.courthousenews.com/2012/05/01/46136.htm] Accessed on May 4, 2012.

²⁷ *Illinois' Internet Tax Law Unconstitutional, Cook County Judge Says*. Karp, Gregory. Apr. 26, 2012. Chicago Tribune. [http://articles.chicagotribune.com/2012-04-26/business/ct-biz-0426-tax-ruling-20120426_1_affiliate-marketers-main-street-fairness-act-rebecca-madigan] Accessed on May 4, 2012.

2012 Workbook

CREDITS AND SUBTRACTIONS

The table below lists the various credits and subtractions that are available on each of the aforementioned Schedules 1299.

	1299-A	1299-B	1299-C	1299-D
Enterprise zone dividend subtraction	X	X	X	
Interest subtraction: high impact business within a foreign trade zone (or sub-zone)	X ^a	X ^b		
Interest subtraction: river edge redevelopment zones	X ^a	X ^b		
Interest subtraction: enterprise zones	X ^a	X ^b		
Contribution subtraction	X ^c	X ^d		
River edge redevelopment zone dividend subtraction	X	X	X	
High impact business within a foreign trade zone (or sub-zone) dividend subtraction	X	X ^e	X	
Film production services tax credit	X		X	X
River edge redevelopment zone investment credit	X		X	X
Enterprise zone investment credit	X		X	X
Tax credit for affordable housing donations	X		X	X
Economic development for a growing economy (EDGE) tax credit	X		X	X
Research and development credit	X		X	X
Ex-felons jobs credit	X		X	X
Veterans jobs credit	X		X	X
Student-assistance contribution credit	X		X	X
Angel investment credit	X		X	X
New markets credit	X		X	X
River edge historic preservation credit	X ^f			X ^f
Live theater production tax credit	X ^f			X ^f
Historic preservation credit	X		X	X
High impact business dividend subtraction		X ^d		
TECH-PREP youth vocational programs credit			X	X
Dependent care assistance program credit			X	X
Jobs tax credit			X	X
High impact business investment credit			X	X
River edge redevelopment zone remediation credit			X	X
Employee child care tax credit				X ^d

^a Form IL-1120-ST financial organizations only

^b Form IL-1120 financial organizations only

^c Form IL-1120-ST filers only

^d Form IL-1120 filers only

^e Form IL-1041 filers only

^f Short-year filers only

2012 Workbook

Most of the credits and subtractions listed previously are briefly described in the following section. For more detailed information, see the instructions for the various Schedules 1299.

Dividend Subtraction

A taxpayer may claim a subtraction for dividends received from a corporation that satisfies one of the following requirements.

- Conducts substantially all its business operations in an Illinois enterprise zone
- Conducts substantially all its business operations in an Illinois river edge redevelopment zone

Note. Qualified river edge redevelopment zones are located only in Aurora, East St. Louis, and Rockford. Enterprise zones are listed on Illinois Schedule 1299-S, *Enterprise Zones, Foreign Trade Zones, and Sub-Zones*.

- Is designated by the Department of Commerce and Economic Opportunity (DCEO) as a “high-impact business” and conducts business operations in a federally designated foreign trade zone (or sub-zone) located in Illinois

Note. Designation as a high-impact business requires that the company make a minimum investment of \$12 million at a designated location in Illinois that causes the creation of 500 full-time jobs or make a minimum investment of \$30 million that causes the retention of 1,500 full-time jobs.²⁸

Only the portion of these dividends included in Illinois base income may be deducted.

Interest Subtraction

Financial organizations²⁹ that are required to file Form IL-1120-ST or Form IL-1120 may subtract interest income received during the tax year from a loan made to a borrower, to the extent that the loan is secured by qualified property that is eligible for:

- The enterprise zone,
- River edge redevelopment zone, or
- High-impact business investment credit.

Contribution Subtraction

Corporations required to file Form IL-1120 or Form IL-1120-ST may deduct twice the amount of any contribution made during the tax year to a designated zone organization that is to be used for an enterprise zone or river edge redevelopment zone project approved by the DCEO. The contribution must qualify as a charitable contribution under IRC §170(c).

²⁸ 20 ILCS 655/5.5.

²⁹ Financial organizations are defined in IITA §1501(a)(8).

Enterprise Zone or River Edge Redevelopment Zone Investment Credit

Certain taxpayers can take this credit if they meet all the following conditions.

- Place qualified property in service in an Illinois enterprise zone or river edge redevelopment zone within the tax year
- Place the qualified property in service on or after the date the zone was officially designated as an enterprise zone or river edge redevelopment zone
- Continue to use the qualified property on the last day of the tax year

Qualified property is property that:

- Is tangible,
- Is depreciable according to IRC §167,
- Has a useful life of four or more years as of the date placed in service in Illinois, and
- Is acquired by purchase as defined in IRC §179(d).

Tax Credit for Affordable Housing Donations

A credit is available to qualified taxpayers who made a donation under §7.28 of the Illinois Housing Development Act for the development of affordable housing in Illinois. The amount of the credit is equal to 50% of the value of the donation³⁰ and the donation must be at least \$10,000 in value.³¹ Several rules and guidelines must be followed to qualify for this credit.

EDGE Tax Credit

The economic development for a growing economy (EDGE) program offers a tax incentive to encourage companies to locate or expand operations in Illinois when there is active consideration of a competing location in another state. The EDGE program provides tax credits to qualifying companies equal to the amount of state income taxes withheld from the salaries of employees in newly created jobs.³² The credit cannot exceed the total amount spent on approved costs (defined in an agreement with the DCEO) by the taxpayer during all prior tax years, minus the amount of credit allowed in prior years. The credit also cannot exceed the amount of income tax for the year.

Research and Development Credit

The research and development (R&D) credit allows a tax credit of 6.5% of the **qualifying expenses** for increasing **qualified research activities** in Illinois.

Qualifying expenses for purposes of the R&D credit are expenditures qualifying under IRC §41 attributable to research in Illinois.³³

³⁰ 35 ILCS 5/214(a).

³¹ *Illinois Affordable Housing Tax Credit (IAHTC)*. Illinois Housing Development Authority. [www.ihda.org/developer/IAHTC.htm] Accessed on Aug. 27, 2012.

³² *Tax Assistance*. Illinois Department of Commerce and Economic Opportunity. [www.ildceo.net/dceo/Bureaus/Business_Development/Tax+Assistance/] Accessed on Apr. 4, 2012.

³³ Instructions to Illinois Schedule 1299-D.

Qualified research is defined as research or experimental activities that create or improve a function, performance, reliability, or quality. The research must be:

- Conducted in Illinois;
- Of a technical nature; and
- Intended to be useful in the development of a new or improved business component held for sale, lease, license, or use in the taxpayer's business.³⁴

The R&D credit may be applied against corporate income tax or it may be passed through by partnerships, S corporations, and limited liability companies to partners, shareholders, and members, respectively. Any credit in excess of the tax liability for the taxable year may be carried forward for a maximum of five years.

Ex-Felons Jobs Credit

For tax years beginning on or after January 1, 2007, the ex-felons jobs credit is 5% of qualified wages paid during the tax year to an employee who is a qualified ex-felon. The total credits for all tax years for wages paid to each ex-felon cannot exceed \$600.

A **qualified ex-felon** is defined as an Illinois resident who meets all the following conditions.

- Was convicted of a felony other than a crime of bodily harm or violence, a Class X felony, an offense for which probation is not allowed, or a sex offense
- Was not convicted of a felony more than twice
- Was sentenced to incarceration in an Illinois adult correctional center
- Was hired by the employer after being released from the correctional facility

Veterans Jobs Credit

For tax years beginning on or after January 1, 2010, eligible taxpayers may take a credit of 10% of qualified wages paid during the tax year to an employee who is a qualified veteran. The credit per year for wages paid to each veteran may not exceed \$1,200.

A **qualified veteran** is defined as an Illinois resident who meets all the following conditions.

- Was a member of the U.S. Armed Forces or the Illinois National Guard
- Served on active duty in connection with Operation Desert Storm, Operation Enduring Freedom, or Operation Iraqi Freedom
- Was honorably discharged
- Was initially hired by the employer on or after January 1, 2007
- Was employed by the employer at least 185 days during the tax year

On July 9, 2012, Governor Quinn signed S.B. 3241, which made the following changes to the credit for certain veterans.

- Increases the credit from 10% to 20% of annual wages
- Increases the annual cap from \$1,200 to \$5,000

³⁴ Ibid.

2012 Workbook

A qualified veteran for purposes of the new credit must meet the following conditions.

- Was unemployed for at least four weeks during the 6-week period immediately preceding the date they were hired by the employer
- Was a member of the U.S. Armed Forces, the Illinois National Guard, or a member of any reserve component of the U.S. Armed Forces
- Served on active duty on or after September 11, 2001
- Was honorably discharged
- Was initially hired by the employer on or after June 1, 2012
- Was employed by the employer at least 185 days following the date of hire

Student-Assistance Contribution Credit

For tax years ending on or after December 31, 2009, employers are entitled to a credit if they make a matching contribution to a qualified Illinois prepaid tuition program on behalf of an employee. The allowable credit per employee is the lesser of 25% of the qualifying contribution or \$500.

Angel Investment Credit

For tax years beginning on or after January 1, 2011, and ending on or before December 31, 2016, an angel investment credit is available in an amount equal to 25% of an investment made directly in a qualified new business. To qualify for the credit, the taxpayer must apply for and receive a tax credit certificate from the DCEO. The application form must attest to the fact that the business is principally engaged in innovation, its business headquarters is in Illinois, and the business has the potential for increasing jobs and capital investment in Illinois.

New Markets Credit

The new markets credit is available for qualified investments made between 2008 and 2012 in a community development entity. Credits are allowed on the second anniversary of the investment and the next four anniversaries.

To qualify for the credit, the taxpayer must:

- Apply for and receive a tax credit certificate from the DCEO, or
- Receive a certificate from the DCEO showing that a credit was transferred to the taxpayer.

TECH-PREP Youth Vocational Programs Credit

A credit is available to taxpayers that are primarily engaged in manufacturing equal to 20% of the taxpayer's direct payroll expenses for qualifying cooperative secondary school youth vocational programs in Illinois. The program must be certified as a qualifying TECH-PREP program by the state Board of Education. The credit may also be claimed for personal services performed by a TECH-PREP student or instructor who would be subject to withholding if they were employed by the taxpayer and no other credit is claimed by the actual employer.³⁵

Dependent Care Assistance Program Credit

Qualified taxpayers may take a tax credit for 5% of onsite dependent care expenses. To qualify for the credit, the taxpayer must:

- Be primarily engaged in manufacturing, and
- Have a dependent care assistance program that is located in Illinois and on the workplace premises.

³⁵ IITA §209.

Jobs Tax Credit

Certain employers are allowed a jobs tax credit of \$500 per eligible employee. To qualify for the credit, the employer must satisfy the following requirements.

- Increase the total number employed within the enterprise zone, river edge redevelopment zone, or foreign trade zone (or sub-zone) during the tax year by five or more full-time eligible employees beyond the total employed in the zone at the end of the last tax year in which the jobs tax credit was claimed
- Retain eligible employees for 180 consecutive days during the tax year

High Impact Business Investment Credit

Qualified taxpayers can take this credit if they satisfy the following requirements.

- The business is designated as a high-impact business.
- Qualified property is placed in service on or after the date the business was designated as a high-impact business and on or before the last day of the tax year.
- The qualified property continued to be used in the business on the last day of the tax year.

Qualified property was defined previously under the section entitled “Enterprise Zone or River Edge Redevelopment Zone Investment Credit.”

Employee Childcare Tax Credit

Corporations that file Form IL-1120 may take a credit if they provide a childcare facility, located in Illinois, for employees’ children. There are two components to the employee childcare tax credit.

1. For tax years ending on or after December 31, 2007, a credit of 30% is available for the start-up costs spent by the employer to provide a childcare facility for employees’ children.
2. A credit of 5% may be taken for the annual amount paid by the employer to provide the childcare facility.

FORM IL-1040: SUBTRACTIONS FROM INCOME

All Illinois tax calculations begin by referring to the federal income tax return. The individual’s federal AGI for the tax year is entered on line 1 of Form IL-1040, *Individual Income Tax Return*. Certain income that is not included in AGI must be added back to income for Illinois purposes, such as federally tax-exempt interest and dividend income.

Next, retirement income and Illinois income tax overpayments that are included in federal AGI are deducted on the applicable lines of the Form IL-1040. This section explains what may properly be included on these lines.

Note. Many adjustments to Illinois income are reported on Schedule M, *Other Additions and Subtractions for Individuals*, which is attached to Form IL-1040. For more information about Schedule M, see the Illinois Update chapter in the 2010 *University of Illinois Federal Tax Workbook*.

2012 Workbook

RETIREMENT INCOME

Most retirement income can be subtracted from an individual's Illinois base income if it is included on line 1 of Form IL-1040. Individual taxpayers can subtract the amount of any federally taxed income that is received from the following sources on line 5 of Form IL-1040.³⁶


- Qualified employee benefit plan income reported on federal Form 1040, line 16b
- Railroad retirement income reported on Form 1040, line 16b
- An IRA (including amounts rolled over to a Roth IRA) or a SEP plan distribution reported on line 15b of Form 1040
- Social security benefits reported on Form 1040, line 20b
- Government retirement or government disability plan income reported on Form 1040, line 7
- State or local governmental §457 deferred compensation plan distributions reported on Form 1040, line 7 or 16b
- Capital gains on employer securities received in lump-sum distributions, to the extent the gains are due to net unrealized appreciation on the securities at the time of distribution and reported on Form 1040, line 13
- Retirement payments to retired partners as reported on Form 1040, line 17
- Group term life insurance premiums paid by a qualified retirement plan or government retirement plan and included as wages on Form 1040, line 7
- Interest income realized on the redemption of U.S. retirement bonds as reported on Form 1040, line 8a

Note. Although the IRS penalizes early distributions (i.e., when the recipient is under age 59½) from qualified retirement plans and IRAs, Illinois allows income from early distributions to be subtracted from state taxable income. Moreover, this allows contributions to IRAs and qualified retirement plans to escape Illinois tax, because they are excluded from federal AGI when they are contributed and subtracted from Illinois taxable income when they are withdrawn.

³⁶ Illinois Pub. 120, *Retirement Income*.

2012 Workbook

Example 4. Tessa's federal AGI for 2011 is \$30,000, which includes a \$5,000 distribution from her §401(k) plan. Tessa is 35 and does not meet any of the exceptions to the early distribution penalty. She is liable for a 10% additional tax on her federal Form 1040. However, she can deduct the \$5,000 distribution on line 5 of her Form IL-1040, as shown below.

	<div>Illinois Department of Revenue</div> <div>2011 Form IL-1040</div> <div>Individual Income Tax Return</div> <div>or for fiscal year ending ____/____/____</div>
tax.illinois.gov	
Step 1: Personal Information	
Do not write above this line.	
A Social Security numbers in the order they appear on your federal return	
333 - 33 - 3333	
Your Social Security number	
Spouse's Social Security number	
B Personal information	
Tessa	
Your first name and initial	
Dillon	
Your last name	
Spouse's first name and initial	
Spouse's last name - only if different	
3800 Landshire Pl.	
Mailing address (See instructions if foreign address)	
Urbana	
City	
IL	
State	
61802	
ZIP or Postal Code	
Foreign Nation, if not United States (do not abbreviate)	
C Filing status (see instructions)	
<input checked="" type="checkbox"/> Single or head of household	
<input type="checkbox"/> Married filing jointly	
<input type="checkbox"/> Married filing separately	
<input type="checkbox"/> Widowed	
D Check if same-sex civil union return (see instructions)	
Step 2: Income	
1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4	
2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ	
3 Other additions. Attach Schedule M.	
4 Total income. Add Lines 1 through 3.	
5 Social Security benefits and certain retirement plan income received if included in Line 1. Attach Page 1 of federal return.	
6 Illinois Income Tax overpayment included in U.S. 1040, Line 10	
7 Other subtractions. Attach Schedule M. Check if Line 7 includes any amount from Schedule 1299-C.	
8 Add Lines 5, 6, and 7. This is the total of your subtractions.	
9 Illinois base income. Subtract Line 8 from Line 4.	
Step 3: Base Income	
10 a Number of exemptions from your federal return	
b If someone can claim you as a dependent, see instructions.	
1 x \$2,000 a 2,000.00	
x \$2,000 b	

Federally taxed income that cannot be subtracted from Illinois base income includes the following.³⁷

- Third-party sick pay
- Nongovernment deferred compensation and disability plans
- Ordinary income from a qualified retirement plan for which the taxpayer has elected to use the special 10-year averaging method on Form 4972, *Tax on Lump-Sum Distributions*

37. Ibid.

Required Attachments

When a taxpayer subtracts retirement income on line 5 of Form IL-1040, certain documents must be attached to the return, as specified below.

1. Form 1040, page 1, to support the subtractions from:
 - a. Qualified employee benefit plans;
 - b. Railroad retirement;
 - c. IRA distributions;
 - d. Converting a traditional IRA to a Roth IRA;
 - e. Self-employed retirement;
 - f. Social security benefits;
 - g. Government retirement, including military plans; and
 - h. Governmental disability, including military plans.

Note. If lines 15b, 16b, and 20b of the Form 1040 do not clearly identify the social security benefits and retirement income reported on line 5 of the IL-1040, the taxpayer must attach a copy of Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, or Form SSA-1099, *Social Security Benefit Statement*, as applicable.

2. Form 1040, page 1, and Form W-2, *Wage and Tax Statement*, or Form 1099-R, showing the amount of state and local governmental deferred compensation paid under §457
3. Form 1040, Schedule D, *Capital Gains and Losses*, and Form IL-4644, *Gains from Sales of Employer's Securities Received from a Qualified Employee Benefit Plan*, for a gain on the sale or exchange of employer securities
4. Form 1040, page 1, and Form 1040 Schedule B, *Interest and Ordinary Dividends*, for redemption of U.S. retirement bonds
5. Form 1040, page 1, and Form W-2, showing the amount of group term life insurance premiums paid by a qualified retirement plan or government retirement plan and included as wages on the taxpayer's return
6. Form 1040, page 1, and 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 and Deductions*, or any other notification identifying the taxpayer's share of the income received from a partnership, S corporation, trust, or estate including the payer's name and federal employer identification number for retirement payments to retired partners

ILLINOIS INCOME TAX OVERPAYMENT

If an individual taxpayer includes taxes paid to a state in their itemized deductions on Form 1040, Schedule A, a subsequent refund, credit, or offset of state taxes may be taxable to them. The taxable portion of a state tax refund, credit, or offset is reported on line 10 of Form 1040.

The total amount of any Illinois income tax overpayment reported as income on line 10 of the federal Form 1040 is subtracted from Illinois base income on line 6 of the IL-1040.

2012 Workbook

In previous years, IDOR mailed Form 1099-G, *Certain Government Payments*, to individuals who received a refund of overpaid taxes. However, **beginning in January 2013, Illinois will no longer mail Forms 1099-G to report prior year individual income tax overpayments** unless the taxpayer specifically requested a paper form. To make the request, taxpayers were instructed to check a box on their 2011 Form IL-1040, as shown below.

Step 13: Sign and Date

Under penalties of perjury, I state that I have examined this return, and, to the best of my knowledge, it is true, correct, and complete.

Your signature _____ Date _____ Daytime phone number _____ Your spouse's signature _____ Date _____

Paid preparer's signature _____ Date _____ Preparer's phone number _____ Preparer's FEIN, SSN, or PTIN _____

Third Party Designee

☐ Check, and complete below, if you want to allow another person to discuss this return with the Illinois Department of Revenue.

Designee's Name (please print) _____ Designee's Phone number _____

Form 1099-G Information

☒ Next year (in January 2013), we will no longer automatically mail 1099-G forms. Instead, we ask that you get this information from our website. Check the box if you still want us to mail you a paper Form 1099-G next year.

The Form 1099-G information is available at www.revenue.state.il.us/Individuals/w2.htm. The taxpayer's social security number must be entered to retrieve the information.

RESIDENCY ISSUES

The June 2010 issue of *Tax Trends*,³⁸ the Illinois State Bar Association's newsletter on state and local taxation, indicated that IDOR has focused considerable attention in recent years on wealthy former residents who now claim to be residents of another state. Often, these former residents maintain ties with Illinois through ownership of a home or business in Illinois or through a spouse who continues to live in Illinois. The article cautions that persons who believe they are no longer Illinois residents may still be considered residents for Illinois income tax purposes.

Under Illinois law, the term **resident** includes an individual who is:

- In Illinois for other than a temporary or transitory purpose, or
- Domiciled in Illinois but absent for a temporary or transitory purpose.³⁹

³⁸ *Illinois State Bar Association Home Page*. Dorner, David. June 2010. Illinois State Bar Association. [www.isba.org/sections/statelocaltax/newsletter/2010/06/imanonresidentofillinoismaybe] Accessed on Apr. 9, 2012.

³⁹ 35 ILCS 1501(a)(20).

Domicile is generally defined as an individual's permanent home.⁴⁰ There is a presumption of residence in Illinois if an individual spends more than nine months of any tax year in Illinois. An individual who is absent from Illinois for one year or more is presumed to be a nonresident of Illinois.⁴¹ Proof of residence or nonresidence depends on the facts and circumstances of each case. Evidence that the taxpayer may submit to IDOR for consideration includes the following.

- Voter registration
- Automobile or driver's license registration
- An income tax return filed as a resident of another state
- Home ownership or rental agreements
- Club and/or organization memberships
- Telephone and/or utility records⁴²

An individual who believes that they are a nonresident of Illinois should file a return for any tax year in which they are presumed by the Illinois regulations to be a resident. Such a return enables the individual to avoid possible penalties imposed for failure to file if it is later determined that they were an Illinois resident. The return should be marked as a nonresident return. A signed statement should accompany the return indicating which presumption of residence the individual was subject to and detailing the reasons that the individual believes they were a nonresident for the taxable year.⁴³

MARRIED TAXPAYERS' RESIDENCY

Taxpayers should generally use the same filing status on their Illinois tax returns as they do on their federal returns. However, if a married couple files a joint federal return and one spouse is a full-year Illinois resident while the other is a part-year resident or a nonresident, they may file separate Illinois returns.⁴⁴ When this option is selected, each spouse determines individual income and exemptions as if each had filed separate federal returns. Federal tax law governs the treatment of income from community property sources when spouses who are residents of different states file separate returns.

Note. For tax years ending before December 31, 2009, a married couple who filed a joint federal return was required to file a joint Illinois return if both spouses were Illinois residents.⁴⁵ For tax years ending on or after December 31, 2009, a married couple who files a joint federal return may elect to file separate Illinois returns.⁴⁶

Married taxpayers with differing residency statuses may **elect** to file jointly on their Illinois return if they filed a joint federal return.⁴⁷ If this option is selected, both spouses are treated as Illinois residents. This election is irrevocable for the tax year. When a joint return is filed, both spouses are treated as Illinois residents and all of their income is treated as Illinois income. However, a credit for income tax paid to another state may be allowed on Schedule CR, *Credit for Tax Paid to Other States*.⁴⁸

⁴⁰ 86 Ill. Admin. Code 100.3020(d).

⁴¹ 86 Ill. Admin. Code 100.3020(f).

⁴² 86 Ill. Admin. Code 100.3020(g)(1).

⁴³ 86 Ill. Admin. Code 100.3020(g)(2).

⁴⁴ Form IL-1040 Instructions.

⁴⁵ 35 ILCS 5/502(c)(1)(A).

⁴⁶ 35 ILCS 5/502(c)(1)(B).

⁴⁷ 35 ILCS 5/502(c)(3).

⁴⁸ Form IL-1040 Instructions.

2012 Workbook

Example 5. Emma Roberts-Thomas resides and works in Colorado. Her husband Willard Roberts-Thomas resides and works in Illinois. For 2011, their income and withholding are as shown in the following table.

	Emma	Willard
Wages	\$60,000	\$50,000
Colorado state tax paid	2,298	
Illinois state tax withholding		2,400

Emma prepares the tax returns for the couple. She prepares a joint federal tax return for 2011. She decides to prepare two sets of Illinois tax returns to see which results in the lowest taxes. Portions of the couple's **joint** IL-1040 and Schedule CR follow.

2012 Workbook

For Example 5



Illinois Department of Revenue 2011 Form IL-1040

Individual Income Tax Return

or for fiscal year ending ____/____/____

Step 1: Personal Information

Do not write above this line.

A Social Security numbers in the order they appear on your federal return

123 - 45 - 6789
Your Social Security number

987 - 65 - 4321
Spouse's Social Security number

B Personal information

Willard

Your first name and initial

Emma

Spouse's first name and initial

45 Travis Circle

Mailing address (See instructions if foreign address)

Kankakee

City

Roberts-Thomas

Your last name

Spouse's last name - only if different

Apartment number

IL

State

60901

ZIP or Postal Code

Foreign Nation, if not United States (do not abbreviate)

C Filing status (see instructions)

☐ Single or head of household ☒ Married filing jointly ☐ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☐

Step 2:	1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4	(Whole dollars only)	1 <u>110,000</u> .00
Income	2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ		2 _____ .00
	3 Other additions. Attach Schedule M.		3 _____ .00
	4 Total income. Add Lines 1 through 3.		4 <u>110,000</u> .00

Step 3:	5 Social Security benefits and certain retirement plan income received if included in Line 1. Attach Page 1 of federal return.	5 _____ .00
Base Income	6 Illinois Income Tax overpayment included in U.S. 1040, Line 10	6 _____ .00
	7 Other subtractions. Attach Schedule M. Check if Line 7 includes any amount from Schedule 1299-C. <input type="checkbox"/>	7 _____ .00
	8 Add Lines 5, 6, and 7. This is the total of your subtractions.	8 _____ .00
	9 Illinois base income. Subtract Line 8 from Line 4.	9 <u>110,000</u> .00

Step 4:	10 a Number of exemptions from your federal return <u>2</u> x \$2,000 a <u>4,000</u> .00
Exemptions	b If someone can claim you as a dependent, see instructions. _____ x \$2,000 b _____ .00
	c Check if 65 or older: <input type="checkbox"/> You + <input type="checkbox"/> Spouse = _____ x \$1,000 c _____ .00
	d Check if legally blind: <input type="checkbox"/> You + <input type="checkbox"/> Spouse = _____ x \$1,000 d _____ .00
	Exemption allowance. Add Lines a through d.
	10 <u>4,000</u> .00

Step 5:	11 Residents: Net income. Subtract Line 10 from Line 9. <i>Skip</i> Line 12.	11 <u>106,000</u> .00
Net Income	12 Nonresidents and part-year residents: Check the box that applies to you during 2011 <input type="checkbox"/> Nonresident <input type="checkbox"/> Part-year resident, and write the Illinois base income from Schedule NR. Attach Schedule NR. 12 _____ .00	

Step 6:	13 Residents: Multiply Line 11 by 5% (.05).	13 <u>5,300</u> .00
Tax	Nonresidents and part-year residents: Write the tax from Schedule NR.	14 _____ .00
	14 Recapture of investment tax credits. Attach Schedule 4255.	14 _____ .00
	15 Income tax. Add Lines 13 and 14. Cannot be less than zero.	15 <u>5,300</u> .00

Step 7:	16 Income tax paid to another state while an Illinois resident. Attach Schedule CR.	16 <u>2,298</u> .00
Tax After Non-refundable Credits	17 Property tax and K-12 education expense credit amount from Schedule ICR. Attach Schedule ICR.	17 _____ .00
	18 Credit amount from Schedule 1299-C. Attach Schedule 1299-C.	18 _____ .00
	19 Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15.	19 <u>2,298</u> .00
	20 Tax after nonrefundable credits. Subtract Line 19 from Line 15.	20 <u>3,002</u> .00

IL-1040 front (R-12/11)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.



2012 Workbook

For Example 5



Illinois Department of Revenue

2011 Schedule CR Credit for Tax Paid to Other States

Attach to your Form IL-1040

IL Attachment No. 17

Read this information first

You should file Schedule CR if

- you were either a resident or a part-year resident of Illinois during the tax year; **and**
- you paid income tax to another state on income you earned while you were an Illinois resident; **and**
- the income subject to the other state's tax is included in your Illinois base income; **and**
- you did not deduct the income tax paid to the other state when you figured your federal adjusted gross income as shown on your Illinois tax return.

You should **not** file this schedule if

- you were a **nonresident** of Illinois during the entire tax year; **or**
- you did **not** pay income tax to Illinois and another state.

For purposes of this schedule, "state" means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or political subdivision of any of these (e.g., county, city, local). The term "state" does not refer to any foreign country.

Note If you earned income in Iowa, Kentucky, Michigan, or Wisconsin, you may be covered by a reciprocal agreement. This agreement applies only to income from wages, salaries, tips, and other employee compensation. See the Schedule CR Instructions.

Step 1: Provide the following information

Willard Roberts-Thomas

123 - 45 - 6789

Your name as shown on your Form IL-1040

Your Social Security number

Step 2: Figure the Illinois and non-Illinois portions of your federal adjusted gross income

Write the amounts in Column A exactly as reported on

- your federal return if you were an Illinois resident, or
- the equivalent line of your Schedule NR, Column B if you were a part-year resident.

Read the instructions before completing this step.

		Column A	Column B
		Total	Non-Illinois Portion
		(Whole dollars only)	(Whole dollars only)
Income	1 Wages, salaries, tips, etc. (federal Form 1040 or 1040A, Line 7; 1040EZ, Line 1)	110,000.00	60,000.00
	2 Taxable interest (federal Form 1040 or 1040A, Line 8a; 1040EZ, Line 2)	.00	.00
	3 Ordinary dividends (federal Form 1040 or 1040A, Line 9a)	.00	.00
	4 Taxable refunds, credits, or offsets of state and local income taxes (federal Form 1040, Line 10)	.00	
	5 Alimony received (federal Form 1040, Line 11)	.00	
	6 Business income or loss (federal Form 1040, Line 12)	.00	.00
	7 Capital gain or loss (federal Form 1040, Line 13 or 1040A, Line 10)	.00	.00
	8 Other gains or losses (federal Form 1040, Line 14)	.00	.00
	9 Taxable IRA distributions (federal Form 1040, Line 15b; or 1040A, Line 11b)	.00	
	10 Taxable pensions and annuities (federal Form 1040, Line 16b; or 1040A, Line 12b)	.00	
	11 Rents, royalties, partnerships, S corporations, trusts, and estates (federal Form 1040, Line 17)	.00	.00
	12 Farm income or loss (federal Form 1040, Line 18)	.00	.00
	13 Unemployment compensation and Alaska Permanent Fund dividends (federal Form 1040, Line 19; 1040A, Line 13; 1040EZ, Line 3)	.00	
	14 Taxable Social Security benefits (federal Form 1040, Line 20b; or 1040A, Line 14b)	.00	
	15 Other income (federal Form 1040, Line 21)	.00	.00
	16 Add Columns A and B, Lines 1 through 15.	110,000.00	60,000.00

Continue with Step 2 on Page 2 →



2012 Workbook

For Example 5

Step 4: Figure your Schedule CR decimal

		Column A	Column B
Decimal	42 Write the amount from Line 41, Column A and Column B.	42 110,000 .00	60,000 .00
	43 Divide Column B, Line 42 by Column A, Line 42 (carry to three decimal places). Write the appropriate decimal. If Column B, Line 42 is greater than Column A, Line 42, write 1.000. Write this amount on Step 6, Line 53.	→ 43 .545	

Step 5: Part-year residents only (Full year residents, go to Step 6.)

Part-Year Only	44 Write the base income from your IL-1040, Line 9.	44	.00
	45 Divide Column A, Line 42 by Line 44 (carry to 3 decimal places).	45	
	46 Write the exemption amount from Form IL-1040, Line 10.	46	.00
	47 Multiply Line 45 by Line 46.	47	.00
	48 Subtract Line 47 from Column A, Line 42.	48	.00
	49 Multiply Line 48 by 5% (.05). Write this amount on Step 6, Line 52, and continue on to Step 6, Line 50.	49	.00

Step 6: Figure your credit

Credit for Tax Paid to Other States	50 If you are claiming a credit for tax paid to any of the states listed below, check the box for the appropriate state. <input type="checkbox"/> Iowa <input type="checkbox"/> Kentucky <input type="checkbox"/> Michigan <input type="checkbox"/> Wisconsin		
	51 Write the total amount of income tax paid to other states on Illinois base income (see instructions).	51	2,298 .00
	52 Illinois Residents: Write your Illinois tax due from Form IL-1040, Line 13. Part-year Residents: Write the amount from Step 5, Line 49.	52	5,300 .00
	53 Write the decimal amount from Step 4, Line 43 here.	53	.545
	54 Multiply Line 52 by Line 53.	54	2,889 .00
	55 Compare the amounts on Lines 51 and 54. Write the lesser amount here and on Form IL-1040, Line 16. This is your tax credit.	55	2,298 .00

Next, Emma prepares **separate** Illinois returns. Portions of these returns follow.

The Illinois tax liability is \$3,002 on the MFJ return and \$2,400 on the MFS returns. Colorado requires a resident taxpayer and nonresident or part-year resident spouse to file a joint Colorado income tax return if they file a joint federal return.⁴⁹ Thus, the Colorado tax liability is unaffected by the filing status on the Illinois returns. Therefore, Emma and Willard save \$602 (\$3,002 – \$2,400) by filing separate Illinois returns.

⁴⁹ FYI Income 13. Colorado Department of Revenue. [http://www.colorado.gov/cs/Satellite?blobcol=urldata&blobheader= application%2Fpdf&blobkey=id&blobtable=MungoBlobs&blobwhere=1251790411557&ssbinary=true] Accessed on May 10, 2012.

2012 Workbook

For Example 5



Illinois Department of Revenue 2011 Form IL-1040 Individual Income Tax Return

or for fiscal year ending ____/____/____

Step 1: Personal Information

Do not write above this line.

A Social Security numbers in the order they appear on your federal return

123 - 45 - 6789
Your Social Security number

_____-_____-_____
Spouse's Social Security number

B Personal information

Willard
Your first name and initial

Roberts-Thomas
Your last name

Spouse's first name and initial

Spouse's last name - only if different

45 Travis Circle
Mailing address (See instructions if foreign address)

Apartment number

Kankakee
City

IL
State

60901
ZIP or Postal Code

Foreign Nation, if not United States (do not abbreviate)

C Filing status (see instructions)

☐ Single or head of household ☐ Married filing jointly ☒ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☐

Step 2:

Income

1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4 **1** 50,000.00
2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ **2** .00
3 Other additions. **Attach** Schedule M. **3** .00
4 **Total income.** Add Lines 1 through 3. **4** 50,000.00

Step 3:

Base Income

5 Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return. **5** .00
6 Illinois Income Tax overpayment included in U.S. 1040, Line 10 **6** .00
7 Other subtractions. **Attach** Schedule M. **7** .00
Check if Line 7 includes any amount from Schedule 1299-C. ☐
8 Add Lines 5, 6, and 7. This is the total of your subtractions. **8** .00
9 **Illinois base income.** Subtract Line 8 from Line 4. **9** 50,000.00

Step 4:

Exemptions

10 **a** Number of exemptions from your federal return 1 **x** \$2,000 **a** 2,000.00
b If someone can claim you as a dependent, see instructions. 0 **x** \$2,000 **b** .00
c Check if 65 or older: ☐ You **+** ☐ Spouse **=** 0 **x** \$1,000 **c** .00
d Check if legally blind: ☐ You **+** ☐ Spouse **=** 0 **x** \$1,000 **d** .00
Exemption allowance. Add Lines a through d. **10** 2,000.00

Step 5:

Net Income

11 **Residents: Net income.** Subtract Line 10 from Line 9. **Skip** Line 12. **11** 48,000.00
12 **Nonresidents and part-year residents:**
Check the box that applies to you during 2011 ☐ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR. **12** .00

Step 6:

Tax

13 **Residents:** Multiply Line 11 by 5% (.05). **13** 2,400.00
Nonresidents and part-year residents: Write the tax from Schedule NR. **14** .00
14 Recapture of investment tax credits. **Attach** Schedule 4255. **14** .00
15 **Income tax.** Add Lines 13 and 14. Cannot be less than zero. **15** 2,400.00

Step 7:

Tax After Non-refundable Credits

16 Income tax paid to another state while an Illinois resident. **Attach** Schedule CR. **16** .00
17 Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR. **17** .00
18 Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C. **18** .00
19 Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15. **19** .00
20 **Tax after nonrefundable credits.** Subtract Line 19 from Line 15. **20** 2,400.00

Staple W-2 and 1099 forms here

Staple your check

IL-1040 front (R-12/11)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.



2012 Workbook

For Example 5



Illinois Department of Revenue 2011 Form IL-1040

Individual Income Tax Return

or for fiscal year ending ____/____/____

Step 1: Personal Information

Do not write above this line.

A Social Security numbers in the order they appear on your federal return

987 - 65 - 4321
Your Social Security number

____ - ____ - ____
Spouse's Social Security number

B Personal information

Emma

Your first name and initial

Roberts-Thomas

Your last name

Spouse's first name and initial

Spouse's last name - only if different

Mailing address (See instructions if foreign address)

Apartment number

City

State

ZIP or Postal Code

Foreign Nation, if not United States (do not abbreviate)

C Filing status (see instructions)

☐ Single or head of household ☐ Married filing jointly ☒ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☐

Step 2:

Income

1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4 (Whole dollars only) **1** 60,000.00

2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ **2** .00

3 Other additions. **Attach** Schedule M. **3** .00

4 **Total income.** Add Lines 1 through 3. **4** 60,000.00

Step 3:

Base Income

5 Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return. **5** .00

6 Illinois Income Tax overpayment included in U.S. 1040, Line 10 **6** .00

7 Other subtractions. **Attach** Schedule M. **7** .00

Check if Line 7 includes any amount from Schedule 1299-C. ☐

8 Add Lines 5, 6, and 7. This is the total of your subtractions. **8** .00

9 **Illinois base income.** Subtract Line 8 from Line 4. **9** 60,000.00

Step 4:

Exemptions

10 **a** Number of exemptions from your federal return 1 **X** \$2,000 **a** 2,000.00

b If someone can claim you as a dependent, see instructions. 0 **X** \$2,000 **b** .00

c Check if 65 or older: ☐ You + ☐ Spouse = 0 **X** \$1,000 **c** .00

d Check if legally blind: ☐ You + ☐ Spouse = 0 **X** \$1,000 **d** .00

Exemption allowance. Add Lines a through d. **10** 2,000.00

Step 5:

Net Income

11 **Residents: Net income.** Subtract Line 10 from Line 9. **Skip** Line 12. **11** .00

12 **Nonresidents and part-year residents:** Check the box that applies to you during 2011 ☒ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR. **12** .00

Step 6:

Tax

13 **Residents:** Multiply Line 11 by 5% (.05). **13** 0.00

Nonresidents and part-year residents: Write the tax from Schedule NR. **14** .00

14 Recapture of investment tax credits. **Attach** Schedule 4255. **14** .00

15 **Income tax.** Add Lines 13 and 14. Cannot be less than zero. **15** 0.00

Step 7:

Tax After Non-refundable Credits

16 Income tax paid to another state while an Illinois resident. **Attach** Schedule CR. **16** .00

17 Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR. **17** .00

18 Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C. **18** .00

19 Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15. **19** .00

20 **Tax after nonrefundable credits.** Subtract Line 19 from Line 15. **20** 0.00

Staple W-2 and 1099 forms here

Staple your check

IL-1040 front (R-12/11)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.



2012 Workbook

For Example 5



Illinois Department of Revenue 2011 Schedule NR Attach to your Form IL-1040

Nonresident and Part-Year Resident Computation of Illinois Tax

IL Attachment No. 2

Emma Roberts-Thomas

Your name as shown on your Form IL-1040

9 8 7 - 6 5 - 4 3 2 1
Your Social Security number

Step 1: Provide the following information

- 1 Were you, or your spouse if "married filing jointly," a full-year resident of Illinois during the tax year?
☐ Yes ☒ No If you answered "Yes," you cannot use this form (see instructions).
- 2 If you, or your spouse if "married filing jointly," were a part-year resident during the tax year, tell us your residency dates for 2011.
a I lived in **Illinois** from / / 11 to / / 11 I lived in from / / 11 to / / 11
Month Day Year Month Day Year State Month Day Year Month Day Year
b My spouse lived in **Illinois** from / / 11 to / / 11, and from / / 11 to / / 11
Month Day Year Month Day Year State Month Day Year Month Day Year
- 3 If you were a resident of any of the states listed below during the tax year or if you were in Illinois only to accompany your spouse who was in the military, check the appropriate box.
☐ Iowa ☐ Kentucky ☐ Michigan ☐ Wisconsin ☐ Military Spouse
- 4 If you earned income or filed a tax return for the tax year in a state other than those listed above, write the two-letter abbreviation of that state.
CO

Step 2: Complete Form IL-1040

Complete Lines 1 through 10 of your Form IL-1040, Individual Income Tax Return, as if you were a full-year Illinois resident. Then, complete the remainder of this schedule following the instructions for your residency. **Attach Schedule NR to your Form IL-1040.**

Step 3: Figure the Illinois portion of your federal adjusted gross income

Write the amounts from your federal return in Column A. Before completing Column B, read the Column B instructions.

	Column A Federal Total	Column B Illinois Portion
Income		
5 Wages, salaries, tips, etc. (federal Form 1040 or 1040A, Line 7; 1040EZ, Line 1)	5 <u>60,000.00</u>	<u>.00</u>
6 Taxable interest (federal Form 1040 or 1040A, Line 8a; 1040EZ, Line 2)	6 <u>.00</u>	<u>.00</u>
7 Ordinary dividends (federal Form 1040 or 1040A, Line 9a)	7 <u>.00</u>	<u>.00</u>
8 Taxable refunds, credits, or offsets of state and local income taxes (federal Form 1040, Line 10)	8 <u>.00</u>	<u>.00</u>
9 Alimony received (federal Form 1040, Line 11)	9 <u>.00</u>	<u>.00</u>
10 Business income or loss (federal Form 1040, Line 12)	10 <u>.00</u>	<u>.00</u>
11 Capital gain or loss (federal Form 1040, Line 13 or 1040A, Line 10)	11 <u>.00</u>	<u>.00</u>
12 Other gains or losses (federal Form 1040, Line 14)	12 <u>.00</u>	<u>.00</u>
13 Taxable IRA distributions (federal Form 1040, Line 15b; or 1040A, Line 11b)	13 <u>.00</u>	<u>.00</u>
14 Taxable pensions and annuities (federal Form 1040, Line 16b; or 1040A, Line 12b)	14 <u>.00</u>	<u>.00</u>
15 Rents, royalties, partnerships, S corporations, trusts, and estates (federal Form 1040, Line 17)	15 <u>.00</u>	<u>.00</u>
16 Farm income or loss (federal Form 1040, Line 18)	16 <u>.00</u>	<u>.00</u>
17 Unemployment compensation and Alaska Permanent Fund dividends (federal Form 1040, Line 19; 1040A, Line 13; 1040EZ, Line 3)	17 <u>.00</u>	<u>.00</u>
18 Taxable Social Security benefits (federal Form 1040, Line 20b; or 1040A, Line 14b)	18 <u>.00</u>	<u>.00</u>
19 Other income (federal Form 1040, Line 21) Include winnings from the Illinois State Lottery as Illinois income in Column B.	19 <u>.00</u>	<u>.00</u>
20 Add Column B, Lines 5 through 19. This is the Illinois portion of your federal total income.	20 <u>0.00</u>	<u>0.00</u>



2012 Workbook

For Example 5

Schedule NR – Page 2

Step 3: Continued

	Column A Federal Total	Column B Illinois Portion
21 Write the Illinois portion of your federal total income from Page 1, Step 3, Line 20.	21 0.00	0.00
22 Educator expenses (federal Form 1040, Line 23; or 1040A, Line 16)	22 .00	.00
23 Certain business expenses of reservists, performing artists, and fee-based government officials (federal Form 1040, Line 24)	23 .00	.00
24 Health savings account deduction (federal Form 1040, Line 25)	24 .00	.00
25 Moving expenses (federal Form 1040, Line 26)	25 .00	.00
26 Deductible part of self-employment tax (federal Form 1040, Line 27)	26 .00	.00
27 Self-employed SEP, SIMPLE, and qualified plans (federal Form 1040, Line 28)	27 .00	.00
28 Self-employed health insurance deduction (federal Form 1040, Line 29)	28 .00	.00
29 Penalty on early withdrawal of savings (federal Form 1040, Line 30)	29 .00	.00
30 Alimony paid (federal Form 1040, Line 31a)	30 .00	.00
31 IRA deduction (federal Form 1040, Line 32; or 1040A, Line 17)	31 .00	.00
32 Student loan interest deduction (federal Form 1040, Line 33; or 1040A, Line 18)	32 .00	.00
33 Tuition and fees (federal Form 1040, Line 34; or 1040A, Line 19)	33 .00	.00
34 Domestic production activities deduction (federal Form 1040, Line 35)	34 .00	.00
35 Other adjustments (see instructions)	35 .00	.00
36 Add Column B, Lines 22 through 35. This is the Illinois portion of your federal adjustments to income.	36 .00	.00
37 Write your adjusted gross income as reported on your federal Form 1040, Line 37; 1040A, Line 21; 1040EZ, Line 4.	37 60,000.00	
38 Subtract Line 36 from Line 21. This is the Illinois portion of your federal adjusted gross income.	38	0.00

Step 4: Figure your Illinois additions and subtractions

In Column A, write the total amounts from your Form IL-1040. You must read the instructions for Column B to properly complete this step.

	Column A Form IL-1040 Total	Column B Illinois Portion
39 Federally tax-exempt interest income (Form IL-1040, Line 2)	39 .00	.00
40 Other additions (Form IL-1040, Line 3)	40 .00	.00
41 Add Column B, Lines 38, 39, and 40. This is the Illinois portion of your total income.	41	0.00
42 Federally taxed Social Security and retirement income (Form IL-1040, Line 5)	42 .00	.00
43 Illinois Income Tax overpayment included on your U.S. 1040, Line 10. (Form IL-1040, Line 6)	43 .00	.00
44 Other subtractions (Form IL-1040, Line 7)	44 .00	.00
45 Add Column B, Lines 42 through 44. This is the total of your Illinois subtractions.	45	.00

Step 5: Figure your Illinois income and tax

Tax Calculations	46 Subtract Line 45 from Line 41. If Line 45 is larger than Line 41, write zero. This is your Illinois base income . Write this amount on your Form IL-1040, Line 12. If Line 46 is zero, skip Lines 47 through 51, and write "0" on Line 52.	46 0.00
	47 Write the base income from Form IL-1040, Line 9.	47 .00
	48 Divide Line 46 by Line 47 (carry to three decimal places). Write the appropriate decimal. If Line 46 is greater than Line 47, write 1.000.	48 .
	49 Write your exemption allowance from your Form IL-1040, Line 10.	49 .00
	50 Multiply Line 49 by the decimal on Line 48. This is your Illinois exemption allowance.	50 .00
	51 Subtract Line 50 from Line 46. This is your Illinois net income.	51 .00
	52 Multiply the amount on Line 51 by 5% (.05). This amount may not be less than zero. This is your tax . Write this amount on your Form IL-1040, Line 13.	52 0.00



This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.

IL-1040 Schedule NR Back (R-12/11)

ILLINOIS SPECIAL DEPRECIATION

Generally, Illinois follows the federal Code. When the federal government passes income tax laws that impact the computation of a taxpayer's AGI, Illinois taxable income is therefore affected. However, the state legislature occasionally "decouples" from the federal Code by passing legislation that specifically addresses federal changes.

When the federal government enacted the Job Creation and Worker Assistance Act of 2002 (JCWAA), it created the concept of "bonus depreciation." Under the bonus depreciation provision of the JCWAA, a taxpayer could accelerate the deduction of capital asset costs by deducting 30% of the qualified property expenditures in the first year the assets were placed in service. The remaining 70% of the cost was depreciated over the asset's applicable depreciation period.

Illinois stood to lose substantial upfront revenue in the years affected by bonus depreciation. To stem this loss, the legislature introduced S.B. 1543, which decoupled Illinois from the federal bonus depreciation rules.⁵⁰ Decoupling reversed federal bonus depreciation by requiring Illinois taxpayers to add back the 30% bonus depreciation to their Illinois taxable income and recompute the depreciation as if the bonus amount had not been claimed.

Taxpayers were required to recompute their Illinois depreciation deduction on Form IL-4562, *Special Depreciation*, for each year the asset remained in service.

This process created two different bases for each bonus depreciation asset — one for federal tax purposes and one for state tax purposes — which in turn affected the gain or loss reported on the sale or disposition of the asset. To counteract this difference, Illinois taxpayers must reverse all changes in the year in which the disposition of the asset occurs.

When 50% bonus depreciation was enacted under various federal tax acts, Illinois continued its practice of decoupling from federal bonus depreciation. However, **Illinois did not decouple from the recent 100% bonus depreciation** enacted under the federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which was available for qualified property placed in service in 2011. No Illinois adjustments are necessary for these assets. This is because the Illinois Income Tax Act requires all bonus depreciation deductions taken under IRC §168(k) to be added back, and it also requires this add-back to be subtracted in the last taxable year in which federal depreciation is allowed on that asset. In the case of 100% bonus depreciation, the statutory provisions require the add-back and the subtraction to be taken in the same taxable year. For the sake of simplicity, Form IL-4562 ignores both adjustments.⁵¹

With a few exceptions, 100% bonus depreciation is not available for assets placed in service after December 31, 2011. **For assets placed in service during 2012, 50% bonus depreciation is available for qualified assets under the federal Code and must be added back for Illinois purposes.⁵² Separate Illinois depreciation schedules must be maintained.**

Note. For a detailed discussion of bonus depreciation for federal income tax purposes, see Chapter 1 in the 2011 *University of Illinois Federal Tax Workbook*.

⁵⁰ S.B. 1543 was enacted under Illinois Public Act 92-603.

⁵¹ IDOR Practitioners Meeting, Feb. 3, 2012. [www.revenue.state.il.us/LegalInformation/Practqna/2012QandA.pdf] Accessed on Apr. 12, 2012.

⁵² Ibid.

2012 Workbook

Example 6. Butterfly Company purchased earthmoving equipment costing \$650,000 on July 10, 2012. The equipment is 5-year MACRS property and was the only capital asset purchased by Butterfly during 2012. It qualifies for federal 50% bonus depreciation. Butterfly's first-year depreciation deduction for federal tax purposes is as follows.

Equipment cost	\$650,000
Bonus depreciation rate	<u>× 50%</u>
Bonus depreciation allowed	\$325,000
MACRS depreciation:	
$\left(\frac{\$650,000 \text{ basis} - \$325,000 \text{ bonus depreciation}}{5 \text{ years}} \right) \times 200\% \times 0.5$	<u>65,000</u>
Total first-year deduction for federal purposes	\$390,000

Butterfly must add back the federal bonus depreciation in step 2 of Form IL-4562, which is shown at the end of this example. The net change in Illinois depreciation is \$260,000, as shown below.

	Line 7a	Net Effect to Illinois Income
Disallowed bonus depreciation	\$325,000	\$325,000
Year 1 MACRS (5-year rate)	<u>× 20%</u>	
Illinois depreciation subtraction	\$ 65,000	<u>(65,000)</u>
Net change in Illinois depreciation		\$260,000

The total allowable Illinois depreciation is \$130,000 (\$390,000 – \$260,000).

2012 Workbook

For Example 6



Illinois Department of Revenue

IL-4562

Special Depreciation

For tax years ending on or after September 11, 2001.
Attach to your Illinois tax return.

Tax year ending

12 2012
Month Year

IL Attachment No. 11

Step 1: Provide the following information

Butterfly Company

Write your name as shown on your return.

37-0000000

Write your Social Security number (SSN) or
federal employer identification number (FEIN).

Special Note → You must read the instructions before completing Form IL-4562

Step 2: Figure your Illinois special depreciation addition

- | | | | |
|---|--|---|-------------------|
| 1 | Write the total amount claimed as a special depreciation allowance on federal Form 4562, Depreciation and Amortization, Line 14 or Line 25, for property acquired after September 10, 2001. | 1 | <u>325,000.00</u> |
| 2 | Individuals only: Write the total amount claimed as a special depreciation allowance from federal Form 2106, Employee Business Expenses. | 2 | _____ |
| 3 | Last year of regular depreciation: Write the total amount of all Illinois depreciation subtractions claimed on prior year IL-4562 forms, Step 3, Line 8, for this property. | 3 | _____ |
| 4 | Add Lines 1 through 3. This is your Illinois special depreciation addition. Write the total here and see instructions for the list of Illinois form and line references to report this addition. | 4 | <u>325,000.00</u> |

Step 3: Figure your Illinois depreciation subtraction

- | | | | |
|-----|--|----|------------------|
| 5 a | Write the portion of depreciation allowance claimed on federal Form 4562, Line 17, plus Line 19, Column g, plus Line 26, Column h, for property for which you claimed a special depreciation allowance on federal Form 4562, Line 14 or 25, for this tax year, or any other tax year ending after September 10, 2001, for bonus depreciation equal to 30 percent of your basis in the property. | 5a | _____ |
| b | Individuals only: If you completed a federal Form 2106 for this tax year, write the portion of any depreciation deductions included in Lines 4 and 38 for this tax year or any prior tax year for bonus depreciation equal to 30 percent of your basis in the property. | 5b | _____ |
| c | Add Lines 5a and 5b. | 5c | _____ |
| 6 | Multiply Line 5c by 42.9% (0.429). | 6 | _____ |
| 7 a | Write the portion of depreciation allowance claimed on federal Form 4562, Line 17, plus Line 19, Column g, plus Line 26, Column h, for property for which you claimed a special depreciation allowance on federal Form 4562, Line 14 or 25, for this tax year, or any other tax year ending after September 10, 2001, for bonus depreciation equal to 50 percent of your basis in the property. | 7a | <u>65,000.00</u> |
| b | Individuals only: If you completed a federal Form 2106 for this tax year, write the portion of any depreciation deductions included in Lines 4 and 38 for this tax year or any prior tax year for bonus depreciation equal to 50 percent of your basis in the property. | 7b | _____ |
| c | Add Lines 7a and 7b. | 7c | <u>65,000.00</u> |
| d | For tax years ending on or before December 31, 2005, multiply Line 7c by 42.9% (0.429). For tax years ending after December 31, 2005, write the amount from Line 7c. | 7d | <u>65,000.00</u> |
| 8 | Add Lines 6 and 7d. | 8 | <u>65,000.00</u> |
| 9 | Last year of regular depreciation: Write the Illinois special depreciation addition reported on any prior year Form IL-4562, Step 2, Line 1 plus Line 2, for that asset. | 9 | _____ |
| 10 | Add Lines 8 and 9. This is your Illinois depreciation subtraction for this year. Write the total here and see instructions for the list of Illinois form and line references to report this subtraction. | 10 | <u>65,000.00</u> |

→ Attach this form to your Illinois return. ←



ONLINE ACCOUNT MANAGEMENT

IDOR recently deployed MyTax Illinois, an online account management program for taxpayers. MyTax Illinois provides all electronic services in one centralized location on IDOR's website. Beginning in September 2012 and phased in over several months, taxpayers will have a single sign-on that will work for all tax types. With MyTax Illinois, taxpayers have the advantage of viewing past and present returns, correspondence, and payments all in one location.

MyTax Illinois will be deployed in three phases.

1. Phase 1 — September 2012
 - a. International fuel tax agreement (IFTA) registration, filing, payment, and account management
 - b. Sales and use tax return filing, payment, and account management
 - c. New business registration for all tax types administered by IDOR
2. Phase 2 — March 2013
 - a. Excise tax return filing, payment, and account management
3. Phase 3 — June 2013
 - a. Withholding income tax return filing, payment, and account management
 - b. Business income tax return filing, payment, and account management
 - c. Individual income tax account management

ACTIVATING A MYTAX ILLINOIS ACCOUNT

To activate a MyTax Illinois account, a taxpayer must provide the following information to enable IDOR to verify their identity.

- The taxpayer's name, email address, and contact phone number
- Account ID
- One social security number of an owner, officer, or responsible party that is on file with IDOR
- A unique user ID, password, and a shared secret answer to a question of the taxpayer's choice

After IDOR verifies the information, usually within minutes, an email containing an authorization code is sent to the address provided. The taxpayer can enter a user ID, password, and the authorization code to complete the activation.

SETTING UP AND ACCESSING MYTAX ILLINOIS

In order to best utilize MyTax Illinois, taxpayers should activate their own primary user account and then grant access to their tax preparers.

Accessing Clients' MyTax Illinois Accounts

There are two methods to gain access to clients' accounts. The first method is for the client to create a second user ID, which enables their tax professional to access the client's account. The tax professional has a unique user ID and password for each client's account for which they have access. Tax professionals are not required to have their own existing MyTax Illinois accounts to gain access through this method.

2012 Workbook

The second method is for the client to grant the tax professional access to their account as a third-party user. The tax professional is required to enter shared secret information to verify that they should have access to the account. They must have their own MyTax Illinois account in order to have third-party access to their clients' accounts. Tax professionals may not be able to create their own MyTax Illinois account until they have registered for one of the taxes that will be available in MyTax Illinois.

As additional taxes are added in future MyTax Illinois rollouts, no additional action will be necessary to view and manage these taxes. MyTax Illinois will automatically provide account information for additional taxes as they become available.

SALES TAX ACCOUNTS

Prior to the implementation of MyTax Illinois, only Form ST-1, *Sales and Use Tax and E911 Surcharge Return*, could be filed electronically through the free application on IDOR's website. Starting in September 2012, almost every sales tax return including amended returns will be available through MyTax Illinois.

IFTA FILERS

After the deployment of MyTax Illinois, IFTA filers are mandated to complete all transactions electronically. IDOR will mail reminder information for 2013 IFTA renewals, but the application process must be completed through MyTax Illinois. Starting with the 4th quarter MFUT-15, *IFTA Quarterly Return*, returns must also be completed through MyTax Illinois.

INDIVIDUAL INCOME TAX ACCOUNTS

Individual taxpayers will have the same payment, viewing, and account management capabilities as are available for all other tax types. However, original individual tax returns can still be filed electronically through IDOR's existing WebFile program at tax.illinois.gov, and amended returns should still be submitted on paper forms.

APPEARANCE OF IDOR RETURNS, NOTICES, AND BILLS

The appearance of IDOR notices and bills will not change because of the implementation of MyTax Illinois. However, some returns may have a slightly different look in order to facilitate the flow for electronic filing purposes.

REGISTERING A NEW BUSINESS

MyTax Illinois is also a portal for new business registration. Instead of logging into the system, a secure link is made available for new taxpayers to register their businesses. It collects the same information that IDOR requests on Form REG-1, *Illinois Business Registration Application*, and its schedules. The taxpayer is guided through the process so that all required entries are made.

BENEFITS OF USING MYTAX ILLINOIS

MyTax Illinois has the following features that make filing returns easier.

- Many of the calculation fields will compute automatically, which reduces math errors.
- There are helpful tips available for many of the lines where common mistakes are made. These tips can be viewed or hidden by clicking on the blue question mark icon next to the lines.
- Fields that contain errors on the return are displayed in red, providing a clear indication where changes must be made before the return is submitted.
- Returns can be saved and edited at a later time before they are filed.
- Many amended returns can be filed electronically.

2012 Workbook

MAKING PAYMENTS WITH MYTAX ILLINOIS

Payments that are scheduled with MyTax Illinois are completely within the taxpayer's control until the day they are debited from the account. The taxpayer can schedule multiple payments at one time, schedule payments in advance, adjust payment amounts and dates of debit, or, if needed, cancel payments entirely.

PHASEOUT OF EXISTING WEBFILE AND WEBPAY SYSTEMS

As new taxes are included in MyTax Illinois, the existing WebFile and WebPay systems that businesses use to file and pay taxes will be phased out. Eventually, all return filing and payment will be done by logging in with one user ID and password.

ADDITIONAL INFORMATION ABOUT MYTAX ILLINOIS

Additional information about MyTax Illinois will be added to IDOR's website at **tax.illinois.gov**.