

What's New? Illinois Tax

By Marco Loza
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With tax filing season already upon us, there are many changes that Illinois tax filers may want to keep in mind when filing their 2017 tax returns and when planning for the 2018 filing season. This article highlights a handful of changes that will affect tax filers.

Income Tax Rate Increase

Effective July 1, 2017, the Illinois income tax rate for individuals, trusts and estates increased from 3.75 percent to 4.95 percent, while the income tax rate for corporations (excluding S corporations) increased from 5.25 percent to 7 percent. For calendar year filers, this mid-year rate change possesses a filing challenge. Income received before July 1, 2017 is subject to the old rate, while income received on or after July 1, 2017 is subject to the new rate. To calculate the amount of income tax due, Illinois calendar year filers may choose between two calculation methods:

1. The first method is the simpler of the two and involves applying a blended rate to total income received in 2017. Most taxpayer will use this method. The blended rate to be used for this calculation by a calendar year individual, trust or estate taxpayer is 4.3549 percent and 6.1322 percent for corporations.
2. In a limited number of cases, the second method, the specific accounting method, will render a benefit to the taxpayer. This method allows the taxpayer to split income between the two accounting periods (based on when the income was received) and calculate the tax liability at the applicable income tax rate for each period. This could be beneficial when a taxpayer had a significant capital gain in the first half of 2017. It should be noted that all items of income, deduction and loss passed through by a partnership, S corporation, trust or estate are treated as received on the last day of that entity's taxable year.

Scholarship Granting Organization and Tax Credit

Beginning with tax year 2018, a new tax credit is available for Illinois taxpayers (individuals and businesses) who make authorized contributions to a Scholarship Granting Organization (SGO), who, in turn, provides scholarships for eligible Illinois students to attend non-public schools in Illinois recognized by the Illinois State Board of Education. The Illinois Department of Revenue can issue up to \$75 million in tax credits per calendar year. Income tax credits will be issued on a first-come, first-served basis "in a manner that is geographically proportionate to enrollment in recognized non-public schools in Illinois." Taxpayers who wish to take advantage of this credit must first apply online through MyTax Illinois (mytax.illinois.gov). Automatic approval will be granted so long as regional and statewide thresholds have not been reached. Approved taxpayers will receive an income tax credit in the amount of 75 percent of their total qualified contributions to one or more SGOs. Income tax credits cannot exceed \$1 million dollars per taxpayer, per tax year.

Additional Changes

- For tax years beginning on or after January 1, 2017, the personal exemption allowance and Illinois Property Tax Credit will be disallowed for taxpayers with federal adjusted gross income that exceeds \$500,000 (married filing jointly) or \$250,000 (all other filing statuses).

MichaelSilver.com

5750 Old Orchard Road, Suite 200
Skokie, IL 60077
Phone 847.982.0333
Fax 847.982.0219

- For businesses that have been taking advantage of the Research and Development Credit, the credit has been extended and may be claimed for tax years ending on or before December 31, 2021.
- For taxpayers who received damage to qualified real property located in an Illinois, declared disaster area as a result of flooding in 2017, Public Act 100-0555 provides for an income tax credit. Taxpayers must have been issued a Natural Disaster Income Tax Credit Certificate from their Township Assessor or Chief County Assessment Officer to receive this credit.
- For taxpayers who have been taking advantage of the Domestic Production Activities Deduction (DPAD), this deduction is no longer allowed for Illinois income tax reporting. DPAD taken on your Federal return is now a required addition on Schedule M of your Illinois income tax return for tax years ending on or after December 31, 2017.
- Illinois will continue to follow the federal bonus depreciation rules for 2017 and 2018, allowing for 100 percent bonus depreciation for qualified property acquired and placed in service after September 27, 2017. Additionally, Illinois will continue to follow the federal Section 179 rules for 2017 and 2018, allowing for a deduction of \$510,000 for property placed in service in tax years beginning in 2017 and \$1 million for property placed in service in tax years beginning in 2018.

For additional information regarding your Illinois, Federal, and other state filing requirements, please reach out to the tax experts at MichaelSilver at 847-982-0333. We would be happy to discuss tax planning strategies with you.

Marco Loza serves as an Associate, Tax at MichaelSilver. His tax expertise includes compliance and planning services for individuals, corporations, partnerships, trusts and estates. Marco is a graduate from Driehaus College of Business at DePaul University, holding a Master of Science in Accounting.