



What's New for Illinois Income Tax

Informational Bulletin

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To: All Income Tax Preparers

This bulletin summarizes the 2002 Illinois Income Tax changes for both the individual and business income tax forms and schedules.

What changes have been made to the 2002 Illinois Income Tax forms?

The income tax forms include the following changes:

- Taxpayers who apportion their business income may make an election to treat all income, other than compensation, as business income.

This change is effective for tax years beginning on or after January 1, 2003, and affects

- *Form IL-1120, Corporation Income and Replacement Tax Return,*
- *Form IL-1065, Partnership Replacement Tax Return, and*
- *Form IL-1120-ST, Small Business Corporation Replacement Tax Return.*

Note Taxpayers filing *Form IL-1041, Fiduciary Income and Replacement Tax Return*, see "What changes have been made to the 2002 Illinois Income Tax schedules."

- Effective August 23, 2002, taxpayers filing *Form IL-1120, IL-1065, IL-1120-ST, or IL-1041* will not be allowed a deduction for a net loss carryover unless the loss was reported within three years after the due date, including extensions, for the loss year return. Taxpayers must

complete *Form IL-1120-X, Amended Corporation Income and Replacement Tax Return, or Form IL-843, Amended Return or Notice of Change in Income*, to report an increase in loss for their loss year return in order to protect their right to carry this increased loss to other years.

Note *Form IL-843, Amended Return or Notice of Change in Income*, included in the 2002 Illinois Package X, revision date 12/02, incorrectly stated the effective date of this change. A new version of this form, revision date 01/03, is available on our Web site or from the Illinois Department of Revenue.

- Taxpayers filing *Form IL-1040, Individual Income Tax Return*, who received earnings from college savings and tuition programs must add these earnings to their adjusted gross income if they were excluded from their federal return.

This addition does not apply to earnings received from a *College Savings Pool* or an *Illinois Prepaid Tuition Program*.

- Taxpayers filing *Form IL-1040* may subtract contributions to a *College Savings Pool*, commonly referred to as the "Bright Start" program, made on or after January 1, 2002.

When funds are rolled over from another college savings plan into a "Bright Start" program, taxpayers may only deduct the amount treated as a return of their original contribution to the old plan, not any earnings on the old plan.

What changes have been made to the 2002 Illinois Income Tax schedules?

The income tax schedules include the following changes:

- *Schedule CR, Credit for Tax Paid to Other States*, for Form IL-1040 and Form IL-1041 have been revised to correctly figure double-taxed income for Illinois purposes.

Some individual taxpayers may benefit from the "Comparison Chart" that will identify the additions and subtractions equalizing Illinois base income and tax with other states.

This chart will include information about Illinois' border states and other states as the information becomes available. The chart will be published in *PUB 111, Illinois Schedule CR Comparison Chart for Individuals*, early in 2003.

- *Schedule NR, Nonresident Computation of Fiduciary Income*, (Form IL-1041) has been changed to allow taxpayers who apportion their business income to elect to treat all of their income, other than compensation, as business income. This change is effective for tax years beginning on or after January 1, 2003.

What changes have been made to the 2002 Illinois Individual Income Tax notices?

The changes we made to the ITR-76, Taxpayer Notification, and related notices simplify messages

sent to individual taxpayers informing them of missing information, incorrect information, etc.

The new taxpayer friendly ITR-76 gives a line-by-line summary of the taxpayer's Form IL-1040 and a description of the reason for the notification.

What new forms have been developed for reporting 2002 income taxes?

As a result of the new federal bonus depreciation legislation, we have developed Form IL-4562, Special Depreciation, for both individual and business income tax filers.

Illinois has "decoupled" from the federal bonus depreciation legislation. Additions and subtractions reversing the effects of federal bonus depreciation are figured on the new Form IL-4562. Taxpayers must use Form IL-4562 if they are filing an Illinois income or replacement tax return and they reported special depreciation on their federal Form 4562 or Form 2106. For more detailed information on this new form, see Information Bulletin, FY 2003-02, Illinois Decouples from Federal Law. This change is effective for tax years ending on or after September 11, 2001.

What changes have been made to the electronic filing methods for individuals in 2002?

The electronic filing methods, *I-File*, *e-File*, and *PC File* were expanded to include

- Form IL-4562, Special Depreciation, and
- College Savings Pool subtractions claimed on Form IL-1040.

Also, *e-File*, and *PC File* were expanded to include taxpayers who deduct a recovery of refund from another state's income tax.

What do I need to note for tax year 2003?

Illinois Business Income Tax forms will be revised to reflect amendments made in 2002 to regulation Section 100.3380(d).

These changes affect the apportionment of business income by a partner engaged in a unitary business with the partnership. The regulation requires the partner to include its share of the partnership's business income and apportionment factors in its own business income and factors, as if the partner had earned the income and incurred the factors itself.

Prior to the amendment, this regulation applied to only partners who are corporations. The revised regulation applies to all partners. This method of apportionment is mandatory for all partners for partnerships' taxable years beginning on or after the effective date of the rulemaking, which was June 20, 2002. However, partners wishing to apply the regulation to earlier years may file a petition under regulation Section 100.3390 and receive permission to do so.