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farmdoc DAILY

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Illinois Income Tax Changes from P.A. 100-22

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As the old saying goes, 'Few things in life are certain with the exception of death and taxes'. And taxes are not always certain either. The Illinois legislature put in place changes to the Illinois tax code that affect all taxpayers including farmers. These changes are effective July 1, 2017. A few of those items that have an impact on those involved in production agriculture in Illinois are:

- The personal income tax rate for Illinois residents (Form IL-1040) and Illinois Non-Residents with income in Illinois (Form IL-1040 NR) increase from 3.75% to 4.95% (4.35% blended rate for 2017 calendar year), effective July 1, 2017 with no sunset. The 'no sunset' means that this legislation was put in place with no scheduled end date effectively making the change permanent or until a further change is successfully legislated.

- For entities filing Illinois Department of Revenue form IL-1120 and organized as a C corporation, the corporate income tax rate increases from 5.25% to 7% (6.125% blended rate for 2017 calendar year), effective July 1, 2017 with no sunset. Again, the 'no sunset' means that there is no scheduled end date for this change effectively making the change permanent or until a further change is successfully legislated.

- Those filing Illinois personal and business tax forms will encounter a 'decoupling' from the Domestic Production Activities Deduction (DPAD) included in the Internal Revenue Service code. This means that a Domestic Production Activities Deduction (DPAD) on the federal income tax return must now be added back to Illinois taxable income. For those able to take advantage of the federal DPAD deduction on the farm, this will increase Illinois taxable income by the amount of the federal DPAD deduction.

For those of you that might not be familiar with this, the Domestic Production Activities Tax Deduction is intended to provide tax relief for businesses that produce goods in the United States rather than producing those goods overseas. The deduction went into effect in 2005 and applies to both small and large businesses. The deduction can apply to almost any business that manufactures grows, extracts, produces, develops or improves goods primarily in the United States. Please see Internal Revenue Service Form 8903 and the instructions for that form for details.

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- For Illinois residents filing Form IL-1040, the credit for property tax paid on your personal residence available on Schedule ICR is limited to those with an adjusted gross income $250,000 or less (all other returns), $500,000 or less (married filing jointly).

- For Illinois residents filing Form IL-1040, the full individual standard exemption allowance is limited to those with $250,000 or less (individual income), $500,000 or less (married filing jointly).

- For Illinois residents, there is an increase in allowed Earned Income Tax Credit (EIC) from 10% of the federal EIC to 14% (in 2017) and 18% (in 2018 and beyond).

- If you are a farm employer and if you are currently withholding Illinois income taxes from employee paychecks, you must immediately increase the withholding to 4.95%. Please see the link below for the recently revised (as of 1July2017) Illinois Department of Revenue Booklet IL-700-T for information on withholding at the new rates.

For a Summary of Illinois Income Tax and Sales Tax Changes from P.A. 100-22, see this link.

Illinois Income Tax Increase Guidance - Detailed Instructions For Filing Your 2016 Illinois Income Tax Return and 2017 Estimated Payments, see this link.

For information on Withholding Tax Rates and Personal Exemption Amount Changes, see this link.

For the updated Illinois Withholding Tax Tables updated as of 1July2017, see this link.

For the Illinois Form IL-W-4 where an individual can find information about withholding and withholding allowances, see this link.