

FGMK, LLC

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ILLINOIS INCOME TAX RATE INCREASE PASSES THE GENERAL ASSEMBLY

In the early hours of January 12, 2011, Illinois legislators passed a bill which raises the individual and corporate income tax rates for Illinois. The bill has been forwarded to Governor Quinn, who supports the increase, and he is expected to sign the bill into law.

The bill will raise income tax rates retroactively to January 1, 2011.

The current 3 percent personal income tax rate will increase to 5 percent for the years 2011 through 2014. Beginning in 2015 the tax rate decreases to 3.75 percent. Beginning in 2025 the tax rate further decreases to 3.25 percent.

The current 4.8 percent tax rate on C corporations will increase to 7 percent for the years 2011 through 2014. Beginning in 2015 the tax rate decreases to 5.25 percent. Beginning in 2025 the tax rate reverts to 4.8 percent.

The personal property replacement income tax rates ("replacement tax") remain unchanged at 1.5 percent for pass through entities and 2.5 percent for C corporations.

The Illinois Department of Revenue will address the required changes to withholding and estimated tax payments as soon as practicable.

The bill also suspends the deduction of net operating loss carryforwards for C corporations for 2011 through 2014. The carryforward period will be extended for the period of suspension.

Fiscal year C corporations and estates will also be affected by the tax increase and should examine the most advantageous method to attribute income between the periods ending before and after December 31, 2010. Certain income and deductions may be specifically allocated or determined pro rata between the lower and higher tax rates.

The bill also modifies the Illinois estate tax exemption. The Illinois estate tax exclusion for individuals dying after December 31, 2010 will be \$2,000,000 and the state tax rate will be based on federal law in effect in 2001. This difference from current federal law will require a review of estate plans and will be an important consideration in estate tax planning.

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