IT-22-0007 04/15/2022 ANNUALIZATION - INSTALLMENT COMPUTATION

> Standard exemption is disallowed in the computation of annualization installment if the adjusted gross income for that period exceeds IITA Section 204(g) thresholds. (This is a GIL.)

April 15, 2022

Re: Illinois income tax

Dear NAME:

This is in response to your letter dated March 10, 2022, in which you request information regarding Illinois income tax. The nature of your request and the information you have provided require that we respond with a General Information Letter ("GIL"), which is designed to provide general information, is not a statement of Department policy, and is not binding on the Department. See 2 Ill. Admin. Code 1200.120(b) and (c), which may be found on the Department's web site at www.tax.illinois.gov.

Your letter states as follows:

> I am writing about error presented in Illinois income tax Form IL-2210. I have been directed by Illinois Department of Revenue to direct my questions to your office.
>
> Before discussing the matter further, it should be noted that I am a resident of Idaho, but I have legitimate interests in discussing Illinois tax matters. My mother lives in Illinois, and I prepare her tax returns. My mother would be penalized for not paying estimated tax accurately. Thus, I hope that you will accept my questions.
>
> My questions on Illinois tax Form IL-2210 (Year 2021) concerns 1) exemption/Line 39, 2) annualization for the tax payment/Line 55.
>
> It is clear that a single filer taxpayer cannot get exemption when the income reaches threshold of $250,000. When one annualizes the income, a significant amount of investment income is received in December. As long as the income is smaller than $250,000, can the taxpayer get personal exemption in annualization of income as long as the income does not reach the threshold (Line 40) in specific period?
>
> In Line 55, there is inconsistency in the applicable percentage, Line 55 and Line 39 for columns B & C. The period for column B is first 5 months, and the period for column C is first 8 months. The applicable percentage for the first 5 months is 45% (clearly stated on Form 2210). 45% is based on 6 months. The correct value

should be 0.90 x 5/12 = 0.375, or 37.5%. For column D, the applicable percentage for the first 8 months is 67.5% (as stated on the Form 2210). The value printed
(on line 48) is based on 9 months. The correct value is 0.9 x 8/12 = 0.60, or 60%. (There is no issue with the applicable percentage for columns A and D/Line 55.).

In view of these two errors, can the Department of Revenue penalize the taxpayers for taking exemption in the period when income is lower than $250,000? Are tax filers correct when they use correct value for the applicable percentage, instead of incorrect value determined on Line 48, when determining the estimated payment that is due? This impacts the payment made for the estimated tax, and penalty imposed when the estimated tax Department of Revenue would assess that more estimated tax is due, when the correct value is lower.

I appreciate your time on this matter, and look forward to your response.

RULING

I. IL-2210 Annualization Worksheet - Exemption Allowance Calculation

A resident or nonresident is liable for Illinois income tax under Section 201 of the Illinois Income Tax Act ("IITA", 35 ILCS 5/101 et seq.) if they compute "net income" as defined under Section 202 of the IITA. Section 202 defines net income as "that portion of his base income for such year which is allocable to this State under the provisions of Article 3, less the standard exemption allowed by Section 204."

Section 203(e) of the IITA provides as follows:

> In general. Subject to the provisions of paragraph (2) and subsection (b)(3), for purposes of this Section and Section 803(e), a taxpayer's gross income, adjusted gross income, or taxable income for the taxable year shall mean the amount of gross income, adjusted gross income or taxable income properly reportable for federal income tax purposes for the taxable year under the provisions of the Internal Revenue Code.

Base income is defined in Section 203 of the IITA. The starting point in calculating base income in the case of an individual is the taxpayer's adjusted gross income for federal income tax purposes. Line 1 of the 2021 Form IL-1040, Individual Income Tax Return, instructs a taxpayer to enter the adjusted gross income from the taxpayer's federal return. If a taxpayer is not required to file a federal income tax return, the Form IL-1040 instructions on page 7 advise the taxpayer to use a federal Form 1040 as a worksheet to determine adjusted gross income for Illinois purposes. The adjusted gross income is then modified by certain statutorily prescribed addition and subtraction modifications in order to arrive at base income.

Section 204(a) of the IITA provides for the standard exemption allowance as follows:

> Allowance of exemption. In computing net income under this Act, there shall be allowed as an exemption the sum of the amounts determined under subsections (b), (c) and (d), multiplied by a fraction the numerator of which is the amount of the taxpayer's base income allocable to this State for the taxable year and the denominator of which is the taxpayer's total base income for the taxable year.

Section 204(g) of the IITA provides as follows:

> Notwithstanding any other provision of law, for taxable years beginning on or after January 1, 2017, no taxpayer may claim an exemption under this Section if the taxpayer's adjusted gross income for the taxable year exceeds (i) $500,000, in the case of spouses filing a joint federal tax return or (ii) $250,000, in the case of all other taxpayers.

As these provisions indicate, the disallowance of the standard exemption is based on federal adjusted gross income rather than Illinois base income and applies in full once the adjusted gross income threshold is exceeded (i.e., there is no phase-out). See additionally Section 102 of the IITA.

The instructions for the 2021 Form IL-1040 elaborate on the standard exemption disallowance. Page 8 of the instructions outlines the income exceptions:

> If your federal filing status is married filing jointly and your federal AGI is greater than $500,000, you are not entitled to an exemption allowance on Line 10. Enter "zero" on Line 10. If your federal filing status is single, head of household, married filing separately, or widowed and your federal AGI is greater than $250,000, you are not entitled to an exemption allowance on Line 10. Enter "zero" on Line 10.

Section 1501(a)(23) of the IITA defines "taxable year" as the calendar year, or the fiscal year ending during such calendar year, upon the basis of which the base income is computed under the IITA. In the case of a return made for a fractional part of a year, taxable year means the period for which such return is made.

The instructions for the 2021 Form IL-1040 further elaborate on the taxable filing period. In response to the question "When must I file" on page 4 of the instructions, the answer specifies the Illinois filing period is the same as the federal filing period. It is assumed that a taxpayer is filing Form IL-1040 for calendar year 2021 unless the taxpayer is filing for a fiscal year and indicates as such in the space provided on the top of the return.

Taxpayers completing IL-2210, Computation of Penalties for Individuals, figure any required installments of estimated tax for the taxable year in Step 2. If a taxpayer's income was not received evenly throughout the year and the taxpayer chooses to annualize income, then the taxpayer must complete the annualization worksheet in Step 6 of the IL-2210. The taxpayer would begin the annualization worksheet by first entering the Illinois base income for each period on Line 38. The IL-2210 instructions for Line 38 provide that "In Columns A through C, enter the base income that you *would have entered* on Form IL-1040, Line 9, if you completed a Form IL-1040 for the first three months, the first five months, and the first eight months of the tax year. In Column D, enter the amount from your Form IL-1040, Line 9" (emphasis added). Line 9 on the IL-1040 is the calculated Illinois base income for the taxable year.

With regard to your first question, a taxpayer may not avoid the standard exemption disallowance threshold on Line 10 of the Form IL-1040 by simply computing base income using the annualized installment method on the IL-2210. As previously discussed, the federal adjusted gross income reported on Line 1 of the Form IL-1040 is the amount reported for the taxable year. The disallowance of the standard exemption is based on this amount, not the calculated Illinois base income on Line 9 of the Form IL-1040. Therefore, the amounts calculated on Line 38 (Illinois base income for each period) and Line 40 (annualized income) in the IL-2210 annualization worksheet are not applicable in the determination of the disallowance of the standard exemption on Line 10 of the Form IL-1040.

However, in order to enter the correct amount of exemption allowance in each column for Line 41 on the IL-2210 annualization worksheet, a taxpayer would need to consider the amount of adjusted gross income that would have been entered on Line 1 of the Form IL-1040 if the taxpayer had filed a return for the first three months, the first five months, and the first eight months of the tax year. If the adjusted gross income used to compute Line 38 base income for a period on the annualization worksheet exceeds $250,000 for taxpayers other than spouses filing a joint return, then the standard exemption is disallowed in the Line 41 exemption allowance calculation for that period. If the adjusted gross income used to compute Line 38 base income for a period does not exceed $250,000 for taxpayers other than spouses filing a joint return, then the standard exemption amount may be included in the Line 41 exemption allowance calculation for that period. The instructions for Line 41 on the IL-2210 contemplate that exemption allowance amounts may change through the year: "Enter the amount in each column that you would have entered as your exemption allowance on Form IL-1040, Line 10, as if you had completed a Form IL-1040 at the end of each period. If your number of exemptions changed during the tax year, determine the exemption allowance that you were entitled to claim at the end of each period. Enter this amount in the appropriate column."

II. IL-2210 Annualization Worksheet - Applicable Percentages

Pursuant to Section 803(d) of the IITA and 86 Ill. Admin. Code 100.8010(c)(1)(A), when the taxable year consists of a calendar year, installments of estimated tax for individuals are to be made on or before each of the following dates: April 15 of that taxable year, June 15 of that taxable year, September 15 of that taxable year, and January 15 of the immediately succeeding taxable year. When the taxable year consists of a fiscal year, Section 803(g) of the IITA and 86 Ill. Admin. Code 100.8010(c)(1)(C) require installments of estimated tax for individuals to be made on or before each of the dates that corresponds with the 15th day of the 4th, 6th, and 9th months of the taxable year, and the 15th day of the first month following the end of the taxable year. These installment due dates are reflected on Form IL-2210, Step 2, Line 9a, Columns A through D.

If the taxpayer establishes that the annualized income installment (as determined in accordance with Section 804(c)(2) of the IITA and 86 Ill. Admin. Code 100.8010(d)(2)) is less than the required installment computed under Section 804(c)(1) and 86 Ill. Admin. Code 100.8010(d)(1), then Section 802(c)(2)(A) of the IITA provides the annualized income installment to be the required installment.

Section 804(c)(2)(D)(i) of the IITA provides the annualized installment applicable period for an individual to be all the months of the taxable year that end prior to the installment due date for which the annualized net income installment is computed. Therefore, the annualized installment applicable periods for individuals are the first 3 months, first 5 months, first 8 months, and all 12 months of the taxable year. These applicable periods are shown on Form IL-2210, Step 6, Columns A through D.

Section 804(c)(2)(C) of the IITA provides as follows:

Applicable Percentage.

In the case of the following required installments:	The applicable required % is:
1st	22.5%
2nd	45%
3rd	67.5%
4th	90%

These applicable percentages are correctly shown on Form IL-2210, Step 6, Line 48, Columns A through D. Therefore, a taxpayer should use the applicable percentage amounts shown on Line 48 to calculate the annualized installment amounts for each applicable period of the taxable year.

As stated above, this is a GIL. A GIL does not constitute a statement of Department policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department.

Sincerely,

Jennifer Uhles
Associate Counsel (Income Tax)