

A taxing situation

How to benefit from a better understanding of Illinois' tax regime **Interviewed by Kristen Hampshire**

After some challenging years in a recessionary economy, businesses aren't the only ones feeling the crunch.

States — including Illinois — are hurting, and to regain strength, they are more closely enforcing tax law and, in some cases, increasing taxes.

According to Pam Huelsman and Susan Nunez from Brown Smith Wallace LLC's Tax Services Practice, the state of Illinois is in a difficult financial position. The state currently imposes a multitude of taxes, and recent legislation increased the personal income tax rate by 67 percent, increased the corporate income tax rate by 46 percent and suspended the net operating loss carryover deduction for taxable years ending after Dec. 31, 2010, and prior to Dec. 31, 2014.

Senate Bill 2505 was signed into law by Gov. Pat Quinn on Jan. 13, 2011. The tax rate for individuals, trusts and estates will increase from 3 percent to 5 percent for taxable years beginning on or after Jan. 1, 2011, and prior to Jan. 1, 2015, with reductions thereafter. The corporate income tax rate will increase from 4.8 percent to 7 percent for taxable years beginning on or after Jan. 1, 2011, and prior to Jan. 1, 2015, with reductions occurring thereafter. The personal property replacement tax remains unchanged.

In addition to the income taxes on both personal and corporate income, the state imposes a Retailers' Occupation Tax on sales of tangible personal property and a Service Occupation Tax on transfers of tangible personal property incidental to a sale of a service. Retailers and servicemen collect these taxes at rates which range from 6.25 percent to 9.75 percent, including both state and local taxes.

Both the Retailers' Occupation Tax and Service Occupation Tax have a compensating use tax applied to tangible personal property acquired from out-of-state vendors. Certain exemptions from these taxes are available to qualifying taxpayers. But despite this foreboding tax climate, there are still opportunities for businesses to earn tax credits.

Smart Business spoke with Huelsman and Nunez about Illinois taxes and how your business can benefit from sound tax planning.

What is the current business tax climate in Illinois?

The financial situation in the state is serious. Illinois isn't paying bills, and everyone is feeling the pain. The state imposes many



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taxes and, as shown by the rate increase for both personal and corporate income taxes, it will likely continue to look for ways to raise revenue through taxes.

What tax credit opportunities are available for businesses in Illinois?

The good news is that, despite heightened audit activity and increased taxes, there are tax breaks for businesses that qualify. An example is the Manufacturer's Purchase Credit. Qualifying manufacturers earn a state sales tax credit of 50 percent of the state sales tax that would be paid on purchases of exempt manufacturing equipment. This credit can be applied toward the sales/use tax imposed on production-related purchases that do not qualify for the exemption.

Let's say a manufacturing company purchases a \$100,000 piece of manufacturing equipment, which would incur a state sales tax of \$6,250 if not for the exemption. The company would earn a credit of half that amount, which is \$3,125. It's a win-win for companies: They are able to utilize the exemption and earn a credit to apply to tax owed on purchases of production-related equipment.

What opportunities are available for businesses to help them create jobs?

Effective June 30, 2010, businesses with 50 or fewer employees can take advantage

of Small Business Job Creation Tax Credits. Every new job created and retained for one year earns credits against the state withholding tax.

The maximum credit is \$2,500 per employee, and businesses must meet certain salary thresholds to qualify. The credit will be available beginning July 1, 2011, for those qualifying companies that have, since June 30, 2010, hired and retained new employees.

What are enterprise zones, and what benefits do those in Illinois provide?

The Illinois Enterprise Zone Program is designed to stimulate economic growth and neighborhood revitalization in economically depressed areas of the state. Illinois' enterprise zones offer a multitude of tax benefits for businesses located in the zones, including sales and use tax exemptions for building materials, property tax abatements and investment tax credits for business income taxes.

To illustrate, Madison County has three enterprise zones and St. Clair County has four. You should consult your tax professional regarding these zone benefits.

What are some tax compliance issues that businesses should be aware of?

Many businesses understand and collect sales tax but are unaware of a compensating use tax due on purchases made from out-of-state vendors.

Given the current environment, it's a particularly good idea to consult with a knowledgeable tax accountant to determine your potential use tax liability and avoid costly state audit liabilities.

Also, businesses should keep current with the applicable sales tax rates in their local jurisdictions. Businesses that do not collect the proper rate will be required to furnish additional taxes not collected from customers.

It's definitely a case of pay now, or you'll really pay later. <<

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