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Why Should Farmers Know About Illinois Schedule SA?

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On July 6, 2017, Illinois Public Act 100-0022 became law. One item in this Act was an Illinois income tax rate increase effective July 1, 2017. The Illinois income tax rate for individuals, trusts, and estates increased from 3.75% to 4.95% while c-corporations Illinois income tax rate increased from 5.25% to 7%. This change means there were two different Illinois income tax rates for the year. Therefore, the default method for calculating Illinois income tax rates for 2017 was to use a blended rate. The blended rate is a simple average for individuals of 4.35%, and the other entities use a weighted average based on days. The Illinois Schedule SA allows you to allocate income to before and after the rate change to utilize the lower rates. Illinois Schedule SA is not a new form. It has been available in the past for corporations; however, individual taxpayers may use this form since there was a mid-year income tax rate change.

Now that you know a little about the history of Illinois Schedule SA let us answer the question why farmers should know about Illinois Schedule SA. For the rest of this article, we will only talk about individual or sole-proprietor rates, but the same concept also applies to other entities that pay Illinois income tax. As we mentioned before, this form allocates income to before and after the income tax rate change. Most farmers sell the prior year's crop in the first half of the year and pay for inputs for the upcoming crop year in the last half of the year. Applying this scenario to the tax rates that Illinois had for individuals in 2017, this would mean most of the income occurred when the tax rate was 3.75% and most of the expenses paid when the tax rate was 4.95%. The lower tax rate at the beginning of the year means that allocating the income using the Illinois Schedule SA could be more advantageous to a farmer as their income happens at different times of the year, unlike a person that earns a salary equally over the year. Here is a simple example to show how the Illinois Schedule SA works.

Mr. & Mrs. Farmer live in Illinois and have a Schedule F (farm income) income of $150,000. If we use the blended (default) rate of 4.35%, the Illinois income tax would be $6,525. To use Schedule SA, we need to allocate the income to before and after the income tax rate change. When we allocate this income, they have an income of $540,000 before July 1, 2017, and negative $390,000 after June 30, 2017. The Schedule SA form works by taking the income before July 1, 2017, times 3.75% and income after June 30, 2017, times 4.95%. However, if the income after June 30, 2017, is less than zero, then you net the two income together and use the 3.75%. For our example, we would have $540,000 (prior) plus a negative $390,000 (post) to get $150,000. Then we take $150,000 times 3.75% (prior rate) to get an Illinois income tax from the Illinois Schedule SA of $5,625. If Mr. & Mrs. Farmer used Illinois Schedule SA, there would be a tax savings of $900 or 0.6%. This example is a basic calculation. If calculated from the tax return there would be other income, deductions, and exemptions, but the concept is still the same.

Therefore, Illinois farmers need be aware of the Illinois Schedule SA. In our example, a farmer with an income of $150,000 saved $900 by completing this form. The Illinois Schedule SA form could save as much as 0.6% of an individual Illinois taxable income (potentially more on corporate returns depending on their tax year-end date). The savings are the most when the income after June 30, 2017, is negative as the incomes are netted together and taxed at the lower rate. Make sure to visit with your tax preparer about the Illinois Schedule SA form to see how it will affect your income taxes. The form and instructions can be found here.