KTJ

KLEIN, THORPE & JENKINS, LTD.
Attorneys at Law

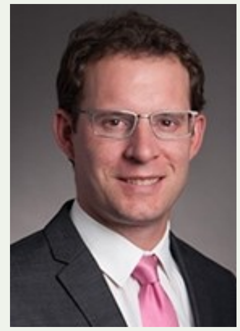
November 11, 2019

For any questions or comments you might have regarding this newsletter, please feel free to contact:

Name: Donald E. Renner III

Email: derenner@ktjlaw.com

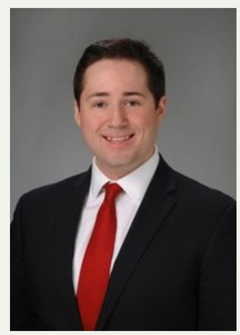
Phone: (312) 984-6469



Name: Derek A. Farrugia

Email: dafarrugia@ktjlaw.com

Phone: (312) 984-6418



WEALTH & SUCCESSION PLANNING GROUP

ALERT AS TO POTENTIAL CHANGES TO ILLINOIS INCOME TAX

Currently, the Illinois Constitution imposes a "flat tax" on all income earners, which is currently at 4.95%. This means that, whatever your income is, and regardless of how you file, your state income tax rate is 4.95%. However, Senate Bill 687, which has passed both chambers of Illinois Congress, would alter the current system to a "progressive tax" rate, meaning, essentially, the more you earn, the higher your tax income rate would be.

Before Senate Bill 687 and the progressive tax can become law, a change to the Illinois Constitution will need to be approved by referendum in the next general election (November 2020). Even if the amendment were to pass in 2020, the amendment only approves a switch from a flat to progressive tax, and does not etch in stone the currently proposed tax rates. However, the Illinois Congress has passed, and Gov. Pritzker has promised to sign, a separate bill, which would institute the following tax rates, as of January 1, 2021:

PROPOSED 2021 ILLINOIS INCOME TAX RATES

Filing Jointly	
Net Income Between	Tax Rate
$0 - $10,000	4.75%
$10,001 - $100,000	4.90%
$100,001, -$250,000	4.95%
$250,001 - $500,000	7.75%
$500,001 - $1,000,000	7.85%
Greater than $1,000,000	7.99% on ALL income

Filing Individually	
Net Income Between	Tax Rate
$0 - $10,000	4.75%
$10,001 - $100,000	4.90%
$100,001, -$250,000	4.95%
$250,001 - $350,000	7.75%
$350,001 - $750,000	7.85%
Greater than $750,000	7.99% on ALL income

HOW TO APPROACH THE NEW TAX STRUCTURE

Keep in mind that, for those earning $1,000,000 or less and who file jointly, and those earning $750,000 or less and who file individually, the rates will work more like a ladder than a blanket. The first $10,000 earned will be taxed at 4.75%, while every dollar between $10,001 and $100,000 will be taxed at 4.90%, for example. Of note, those earning $250,000 or less will actually see a decrease in their Illinois income tax compared to the current tax system, as the first $100,000 of income is taxed at lower rates than the current flat tax rate of 4.95%. This may be why Democrats believe the referendum will be approved by Illinois voters.

With property taxes and now income taxes both being on the rise, many Illinois residents have been considering their options. A common approach may seem drastic initially, but depending on your circumstances, may not be out of the question: establishing a new residency in another state to avoid increases in income and property taxes.

It should be reiterated, some Illinois taxpayers will actually see a reduced tax liability. If your unique earnings are at or below $250,000, not only will your income taxes not be increased, but you will actually

SHOULD YOU CHANGE RESIDENCY?

If you are fortunate enough to be a higher income earner and you currently earn greater than $250,000 a year, you should take time to consider ways to reduce your tax liability.

In connection with changing residency to save on both income tax and, potentially, estate taxes, we often explore reciprocal tax agreements between Illinois and other neighboring states with our clients. Frequently referred to as just “reciprocity,” these agreements between certain states allow a resident of one state to request exemption from tax withholding in the other reciprocal state. For example, Illinois and Michigan are reciprocal states, by agreement, so a Michigan resident who works in Illinois may file a form with her employer to claim exemption from Illinois income tax withholding. Instead, the employer will withhold Michigan taxes for the employee. Illinois currently has reciprocal agreements with Iowa, Kentucky, Michigan, and Wisconsin.

Kentucky	6.00% flat tax
Michigan	4.25% flat tax
Wisconsin	5.00% flat tax

Iowa – Jointly or Individually	
Income	Tax Rate
$0+	.36%
$1,598+	.72%
$3,196.00+	2.43%
$6,392.00+	4.5%
$14,382.00	6.12%
$23,970.00	6.48%
$31,960.00	6.8%
$47,940.00	7.92%
$71,910.00	8.98%

Chicago Office
20 N. Wacker Drive, Ste. 1660,
Chicago, IL 60606
T: (312) 984-6400
F: (312) 984-6444

Orland Park Office
15010 S. Ravinia Ave., Ste. 10,
Orland Park, IL 60462
T: (708) 349-3888
F: (708) 349-1506

Lincolnshire Office
250 Parkway Drive, Ste. 330,
Lincolnshire, IL 60069
T: (312) 984-6400
F: (312) 984-6444

Streator Office
7 Northpoint Drive
Streator, IL 61364
T: (815) 672-3116
F: (815) 672-0738

www.ktjlaw.com

KTJ
KLEIN, THORPE & JENKINS, LTD.
Attorneys at Law

Again, if passed, these changes would not take effect until the 2021 tax year. However, you should begin planning ahead in order to make potential transitions as seamless as possible. For example, if you own property in one of these reciprocal states, we should take the time to assess your expected income and determine the pros and cons of establishing residency in a reciprocal state while working in Illinois, or vice versa. Keep in mind, tax rates are only part of the equation. Homestead exemptions, standard deductions, and taxation of retirement or pension income could have a significant impact in this determination.

- Illinois residents earning $250,000 or less enjoy a lower tax rate than those in Kentucky and Wisconsin but may stand to reduce their income tax liability by establishing residency in Michigan
- Illinois residents earning more than $250,000 may stand to reduce their income tax liability by establishing residency in any of Kentucky, Michigan, and Wisconsin
- It is less likely that an Illinois resident would see a benefit by establishing residency in Iowa; indeed, it would likely increase most Illinois resident's income tax liability

The above bullets are written generally, and before deciding to establish residency in another state, you should consult with us to determine whether potential income or estate tax savings exist, given your unique income and wealth

ESTATE TAX SAVINGS WITH A CHANGE IN RESIDENCY

Estate taxes provide yet another layer of consideration when deciding to establish residency in a new state. In addition to the Federal estate tax, some states impose an estate and/or inheritance tax. An estate tax imposes taxes on the value of a decedent's, so that the estate receives the tax bill as opposed to any beneficiaries. On the other hand, an inheritance tax imposes a tax liability on the beneficiaries based on the amount inherited from an estate. States with an estate tax include Connecticut, Hawaii, Illinois, Maine, Massachusetts, Minnesota, New York, Oregon, Rhode Island, Vermont, Washington, and Washington D.C. Meanwhile, Nebraska, Iowa, Kentucky, Pennsylvania, and New Jersey have inheritance taxes. Finally, Maryland has both an estate and an inheritance tax. When determining whether or not to establish a residence in a new state, we work with our clients to consider the amount they may save on income taxes as well as estate or inheritance tax.

Planning for your future and trying to provide for your loved ones is a complex subject, especially when weighing the options of establishing a new residency in order to save in income taxes or estate tax. For further information, or to set aside time to go over your circumstances and plan for these changes, please feel free to contact us.