



Roland W. Burris

Comptroller
State of Illinois

ACCOUNTING BULLETIN NO. 28

June 5, 1980

201 State House
Springfield, Illinois 62706
217/782-6000

TO: Agency Heads and Chief Fiscal
Officers of All State Agencies

SUBJECT: Illinois Income Tax as it Applies to
Professional or Personal Service Contracts
and Payments of Certain Prizes and Awards

Pursuant to a recent amendment (Public Act 81-221) of the Illinois Income Tax Act, the Department of Revenue issued guidelines regarding income tax withholding for residents of Illinois and non-residents. After the Department of Revenue issued their Informational Bulletin, these withholding guidelines were incorporated into the Comptroller's voucher audits.

Professional or Personal Service Contracts

Effective January 1, 1980, professional or personal service contracts exceeding \$1,000 and meeting other withholding criteria of the Department of Revenue's Informational Bulletin (see attached) are subject to the 2½% State income tax withholding requirement. Before a tax may be withheld, the written contract must require the presence in Illinois of the individual or group of individuals identified in the contract.

Residents of Illinois may be exempt from this withholding requirement by certifying on a Form IL-W5NR, distributed by the Department of Revenue (see attached), or on any invoice or billing statement provided to the payor by the payee, that they are residents of Illinois. Non-resident individuals are subject to tax unless the withholding criteria are not met.

Prizes and Awards

Effective January 1, 1980, prizes and awards exceeding \$1,000 won by an individual or group of individuals representing themselves or their sponsors are subject to the State withholding tax, if the contest is staged wholly in Illinois.

C-02 Voucher Processing (Withholding Required)

If the invoice or contract states that a specific individual is performing services in Illinois for payment(s) exceeding \$1,000, the voucher must be processed through the C-02 Contractual Payroll System. Modifications have been made to the system to accept such vouchers.

Special requirements applicable to Public Act 81-221 for completing the C-02 voucher are as follows:

Information entered by payee on C-02 voucher:

Block 2 Enter the social security number of the individual named on the first line in Block 4. If the warrant is to be mailed to a third party address (i.e. individual contracted from a company) the name of the individual providing the services must be entered on the first line in Block 4 with the third party's name and address entered on the line directly below.

Block 15 Enter "S" for the 2½% withholding.

Information entered by State Agency on C-02 voucher:

Block 14 Enter "E" meaning the payment is exempt from federal tax.

Block 16 Enter "0" for the 2½% withholding.

Block 30 Enter "5," which will indicate the payment is for non-residents other than lottery payments.

The remainder of the Contractual Service Voucher (C-02) should be completed as indicated in CUSAS Procedure 17.20.55.

C-13 Voucher Processing (Withholding Not Required)

A C-13 voucher would continue to be used for payment of non-resident professional or personal service contracts under the following circumstances:

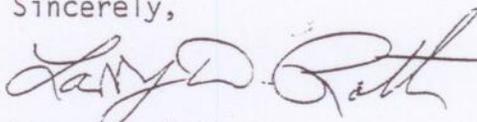
- (1) The payee is an Illinois resident, although payment is made to an address outside of Illinois. The payee must cite on the invoice billing statement that he/she is a resident of Illinois. If a series of payments is made to the payee under the same contract, each C-13 voucher or billing statement should certify that the payee is a resident of Illinois.
- (2) The payee signs and files with the Comptroller a copy of IL-W5NR form. This form must be filed by the agency with the contract when establishing the contract with the Comptroller. The C-13 invoice/voucher must state in block 10 (description area) that "IL-W5NR form is on file with the Comptroller."

- (3) The payee will not receive payments in excess of \$1,000 pursuant to the contract.

The Comptroller's Office will be reviewing those vouchers payable to individuals who perform professional or personal services in excess of \$1,000 per contract and whose mailing address is outside of Illinois. Also, vouchers submitted through the C-13 invoice/voucher system for professional or personal services payments that are less than \$1,000 must contain a statement that "Payments will not exceed \$1,000 and are not subject to Illinois income tax withholding" in block 10 of the invoice/voucher form.

If you have any questions concerning the procedures outlined in this bulletin, please contact Barbara Moore or Dave Dankoski at 217/782-3608.

Sincerely,



Larry D. Roth
Director, State Accounting

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