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COMPTROLLER
STATE OF ILLINOIS

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PAYROLL BULLETIN
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SPRINGFIELD, ILLINOIS 62706
217/782-6000

TO: All State Agencies, Departments, Boards,
Commissions and Universities

SUBJECT: Federal Tax Withholding on Supplemental Wage Payments

There has been some confusion concerning computation of federal taxes on overtime pay, lump sum vacation, gross adjustments, back pay and retroactive wage payments.

The Internal Revenue Service guidelines state:

"If you pay supplemental wages such as bonuses, commissions, overtime pay, back pay including retroactive wage increases, or reimbursements for non-deductable moving expenses, in the same payment with regular wages, withhold the income tax as if the total of the supplemental and regular wages were a single wage payment for the regular payroll period."

It has been construed that lump sum vacation payments and adjustments to gross are also subject to this method of calculating federal taxes.

If an employee is being paid for time worked during the pay period shown on the payroll voucher, any supplemental payments of the type described above must be added to the regular pay and taxes computed from the tax tables on the gross amount.

On the other hand, if you pay supplemental wages in a payment separate from regular wages, such as a supplemental payroll for back pay including retroactive wage payments, lump sum vacation, overtime, etc., you may withhold at a flat percentage rate of 20 percent without allowing for any withholding allowances the employee claimed on his W-4 form.

If you have any questions concerning this matter, please contact me at (217) 782-4758.

Very truly yours,

George W. Lindberg
Comptroller

By: Kermit W. Kerley
Payroll Supervisor