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ILLINOIS STATE COMPTROLLER

PAYROLL BULLETIN

To: All State Agencies, Boards and Commissions

From: Ellen Andres, Assistant Comptroller – Operations

Date: December 10, 2021

Subject: State Income Tax Withholding for Employees Working in Other States

Number: 6-21

Illinois Office of Comptroller (IOC) has updated the policy regarding state tax withholding for employees that work in another state. Agencies that have employees that do not work in Illinois should withhold state tax for those employees based on the tax laws and withholding requirements of the state in which the employee’s work is being performed. This change becomes effective January 1, 2022. Agencies should refer to [Illinois Department of Revenue’s Publication 130](#) for guidance on when Illinois income tax must be withheld from an employee’s wages.

The IOC is the State’s employer for tax reporting purposes and must adhere to the tax laws of the states that employees are working in. Therefore, to implement this change agencies must identify all current employees that are not working in Illinois and submit a list of those employees indicating which state the employee is working in, by December 22, 2021, so that a withholding account for that state can be established. Additionally, before an agency hires a new employee or allows a current employee to work in another state, agencies must notify the IOC in order to establish a withholding account in that state. Once the IOC has verified an account has been established for that state, a state tax code and trailer code will be provided to the agency. Agencies should submit the list of current employees and future requests to iocpayroll@illinoiscomptroller.gov, in the excel format shown below.

| AGENCY | LAST NAME | FIRST NAME | CITY (where employee physically reports for work) | STATE (where employee physically reports for work) |
|--------|-----------|------------|--|---|
| 360 | Smith | Joseph | Terre Haute | IN |
| 360 | Williams | Marie | Baltimore | MD |

Unless you have the applicable state tax codes, agencies submitting a payroll in December of 2021 for a January 2022 issue date, that includes employees not working in Illinois, should not withhold any state taxes for those employees on the payroll voucher. To accommodate for this the State Tax Code field, Bytes 196-197 should be entered as

99, and the State Tax Amount field, Bytes 202-208, should be entered as 0000000 on the payroll voucher file. Agencies will then need to calculate and withhold the employee's state tax for the appropriate state on the next payroll processed in 2022, for both pay periods, once the new state tax codes have been provided

Each agency is responsible for tracking where their employee's work is being performed, whether the employee reports to a physical office or works remotely, and adhering to the state's tax withholding requirements where that work is performed. The employing agency must maintain the appropriate tax withholding forms and correctly calculate the amount to withhold for the employee based on that state's withholding laws.

The IOC will be responsible for submitting the tax withholding payments, reporting and filing the applicable employer returns, and submitting the employees' W-2 tax statements to the appropriate state tax authority based on that state's reporting requirements. Another payroll bulletin will be provided to address withholding for employees that work in Illinois and in their residing state.

The State of Illinois has reciprocal agreements with Iowa, Kentucky, Michigan, and Wisconsin. The Illinois Department of Revenue requires employees with wages exempt from withholding Illinois income tax due to a reciprocal agreement to complete [IL-W-5-NR Employee's Statement of Nonresidence in Illinois](#). Agencies must keep a copy of this completed form on file.

Agencies should inform out of state employees of this updated policy. Employees may make changes to their federal and state tax withholding allowances by completing new W-4 forms. All withholding allowance forms must be kept on file by the employing agency. The [C-25 – IRS - Form W-4 - Employee's Withholding Certificate \(2021\)](#) and [C-25 - IDOR - Form IL-W-4 - Employee's Illinois Withholding Allowance Certificate](#) can be found on the IOC's website.

If you have questions concerning this Payroll Bulletin, please send an email to iocpayroll@illinoiscomptroller.gov. Agencies may access this and other Accounting, Payroll, and SAMS Bulletins on the IOC website.