

1 AN ACT in relation to taxes.

2 Be it enacted by the People of the State of Illinois,
3 represented in the General Assembly:

4 Section 5. The Illinois Income Tax Act is amended by
5 changing Section 701 as follows:

6 (35 ILCS 5/701) (from Ch. 120, par. 7-701)

7 Sec. 701. Requirement and Amount of Withholding.

8 (a) In General. Every employer maintaining an office or
9 transacting business within this State and required under the
10 provisions of the Internal Revenue Code to withhold a tax on:

11 (1) compensation paid in this State (as determined
12 under Section 304 (a) (2) (B) to an individual; or

13 (2) payments described in subsection (b) shall
14 deduct and withhold from such compensation for each
15 payroll period (as defined in Section 3401 of the
16 Internal Revenue Code) an amount equal to the amount by
17 which such individual's compensation exceeds the
18 proportionate part of this withholding exemption
19 (computed as provided in Section 702) attributable to the
20 payroll period for which such compensation is payable
21 multiplied by a percentage equal to the percentage tax
22 rate for individuals provided in subsection (b) of
23 Section 201.

24 (b) Payment to Residents.

25 Any payment (including compensation) to a resident by a
26 payor maintaining an office or transacting business within
27 this State (including any agency, officer, or employee of
28 this State or of any political subdivision of this State) and
29 on which withholding of tax is required under the provisions
30 of the Internal Revenue Code shall be deemed to be
31 compensation paid in this State by an employer to an employee

1 for the purposes of Article 7 and Section 601 (b) (1) to the
2 extent such payment is included in the recipient's base
3 income and not subjected to withholding by another state.

4 (c) Special Definitions.

5 Withholding shall be considered required under the
6 provisions of the Internal Revenue Code to the extent the
7 Internal Revenue Code either requires withholding or allows
8 for voluntary withholding the payor and recipient have
9 entered into such a voluntary withholding agreement. For the
10 purposes of Article 7 and Section 1002 (c) the term
11 "employer" includes any payor who is required to withhold tax
12 pursuant to this Section.

13 (d) Reciprocal Exemption.

14 The Director may enter into an agreement with the taxing
15 authorities of any state which imposes a tax on or measured
16 by income to provide that compensation paid in such state to
17 residents of this State shall be exempt from withholding of
18 such tax; in such case, any compensation paid in this State
19 to residents of such state shall be exempt from withholding.
20 All reciprocal agreements shall be subject to the
21 requirements of Section 2505-575 of the Department of Revenue
22 Law (20 ILCS 2505/2505-575).

23 (e) Notwithstanding subsection (a) (2) of this Section,
24 no withholding is required on payments for which withholding
25 is required under Section 3405 or 3406 of the Internal
26 Revenue Code of 1954.

27 (Source: P.A. 90-491, eff. 1-1-98; 91-239, eff. 1-1-00.)