

**DATE:** December, 2020

**TO:** Memo to Files

**FROM:** Harold Berndt, Director Financial Reporting and Taxation, UM System

**SUBJECT:** State Withholding and Wage / Income Reporting

This memo is intended to clarify University's understanding and position for state withholding and reporting of state wages for employee's W-2s.

**Withholding obligations for wages paid to University of Missouri employees**

**Missouri residents working in Missouri**

For employees residing and working in Missouri, Missouri tax will be withheld based on how the MO W-4 is completed. The University will report state tax withheld to Missouri on the W-2 and report the total gross wages to Missouri.

**Kansas residents working in Kansas**

For employees residing and working in Kansas, Kansas tax will be withheld based on how the KS K-4 is completed. The University will report state tax withheld to Kansas on the W-2 and report the total gross wages to Kansas.

**Missouri residents working in Illinois**

Note: this section has been updated to reflect the changes implemented in SB 1515 effective January 1, 2020. If an employee is a Missouri resident and performs significant service within Illinois for more than 30 working days and the service performed within Illinois is nonincidental to the work performed outside Illinois, then the portion of compensation considered paid in Illinois is subject to Illinois withholding. For example, a Missouri based employee may who spends 50 days working in Illinois would have 20% (50 working days divided by 250) of their income subject to Illinois withholding. (IL Pub 130). If only a portion of an employee's wages is subject to Missouri income tax withholding, then the amount of Missouri tax required to be withheld is calculated using a percentage of the Missouri wages by the total Federal wages. For practical purposes the University will use the non-Illinois percentage. With the example above that would be 80%. (MO Pub 4282). The University will report taxable gross income to Illinois and Missouri on the W-2 based on the percent distribution documented throughout the tax year and report the tax withheld accordingly.

**Missouri residents working in Kansas**

For employees residing in Missouri and working in Kansas, Kansas tax will be withheld based on how the KS K-4 is completed. The University will report state tax withheld to Kansas on the W-2 and report the total gross wages to Kansas and no withholding or gross wages would be reported to Missouri.

**Illinois residents working Missouri**

For employees residing in Illinois and working in Missouri, Missouri tax will be withheld based on how the MO W-4 is completed. The University will report state tax withheld to Missouri on the W-2 and report the total gross wages. No withholding or reporting to Illinois is necessary. (Per IL Pub 130, page 5 and 6). As noted in Pub 130, The University is not required to withhold Illinois income tax, an employee that is an Illinois resident will be taxed by Illinois. Illinois will give the employee a credit for taxes paid in Missouri. If that credit is not enough to cover the Illinois tax liability, the employee may need to make estimated income tax payments to Illinois.

**Kansas residents working in Missouri**

For employees residing in Kansas and working in Missouri, Missouri tax will be withheld based on how the MO W-4 is completed. The University will report state tax withheld to Missouri on the W-2 and report the total gross wages to Missouri. It is possible that the Kansas resident would have amount withheld for Kansas as well. This occurs when the taxes withheld for Missouri are less than what Kansas would withhold on those wages. The difference is withheld and submitted to Kansas. The W-2 would report the amount withheld for Missouri and the total gross wages to Missouri. A second page of the W-2 would result only reporting KS tax withheld and no wage to Kansas.

**All states other than Missouri, Illinois and Kansas**

As of the date of this memo, the University is only registered to withhold and remit income taxes in the states of Missouri, Illinois and Kansas. For employees residing outside of Missouri, Illinois and Kansas, the employee will not have state tax withheld and will be responsible for remitting taxes, if required, to the state they reside in. If the employee's work address is listed as Missouri, the employee will be defaulted to withholding Missouri tax until the employee completes a "Statement of Tax Responsibility" indicating that they do not want Missouri income tax withheld or their taxable gross income reported to Missouri.

**Withholding obligations for payments from the University of Missouri Pension Plan****Retirees who reside in Missouri**

If the retiree resides in Missouri, withholding will be based on how the retiree completes the form MO W-4P. The retiree can elect to have no taxes withheld or may choose the amount they would like withheld. Taxes and gross amounts are reported on the 1099-R.

**Retiree resides in Illinois**

Illinois does not tax qualified retirement payments. If the University received a "Statement of Tax Responsibility" (STR) from the retiree, then state tax would not need to be withheld from those pension payments. State taxes and gross income amounts would not be reported on the 1099-R if the STR is received. If there is no STR then Missouri gross and withholding would be reported on the 1099-R.

**Retiree who resides in Kansas**

Kansas taxes qualified retirement contributions and requires withholding on distributions subject to federal income tax withholding. Kansas does not have a specific pension withholding allowance form. However, based on guidance from the Kansas Department of Revenue, an individual may use the Form K-4 to provide number of allowances and/or request additional withholding. If a Form K-4 is not provided to the University, the withholding should be done at single and zero allowances. Note an employee may elect out of federal income tax withholding and therefore Kansas income tax withholding would be exempted as well.

**Retirees who reside in all other States**

Retirees living in states other than Missouri, Illinois or Kansas would not have any taxes withheld as long as the University received a "Statement of Tax Responsibility" letter indicating that they do not reside in Missouri. If no STR is received, then gross income and withholdings will be reported for Missouri.