



Municipal Income Tax

The Ohio Constitution gives municipalities (cities and villages) the authority to exercise all powers of local self-government and to adopt and enforce within their limits such local police, sanitary and other similar regulations, as are not in conflict with general laws. The Ohio Constitution requires the General Assembly to restrict their power of taxation, so as to prevent the abuse of such power. The Ohio Constitution allows laws to be passed to limit their power to levy taxes.

State law permits municipalities to levy income taxes. Municipal income taxes are generally flat “wage” or “earned income” taxes imposed on wages, salaries, and other compensation earned by residents and nonresidents who work in the municipality. Most municipalities allow a partial or full credit to resident individuals for municipal income taxes paid to another municipality where they are employed. The taxes are also generally applied to businesses’ net profits attributable to activities in the municipality, including the net profits of businesses not organized as C corporations.

In 2012, the latest year for which data are available, municipal income tax revenue totaled \$4.5 billion statewide. Revenues to Ohio’s three largest cities (Columbus, Cleveland, and Cincinnati) accounted for almost a third of statewide municipal income tax revenue in that year.

Taxpayer

(Ohio Revised Code 718.01, 718.03, and municipal ordinances)

The tax is paid by residents of a city or village that has imposed a municipal income tax as well as nonresidents who work in such a municipality. The tax also applies to businesses that have net profits within the municipality. Withholding responsibilities generally apply to employers located within municipalities that have enacted a tax.

Tax Base

(R.C. 718.01, 718.02, 718.14, and municipal ordinances)

The tax generally applies to:

- Wages, salaries, and other compensation earned by residents of the municipality and by nonresidents working in the municipality.
- Net profits of business (both incorporated and unincorporated) attributable to activities in the municipality. Net profits are apportioned using equal weighting of property, payroll, and sales inside the municipal corporation relative to those factors for the business everywhere.

- Net profits from rental activities.

Subject to the Revised Code, municipalities may specify other types of income that are subject to the tax in their local ordinances.

Rates

(R.C. 718.01 and municipal ordinances)

State law requires a flat rate within a municipality. The rate is determined locally. The maximum rate permitted to be levied without voter approval is 1.0%.

In 2012, the most recent year for which data are available, 601 municipalities (240 cities and 361 villages) levied an income tax. Rates ranged from 0.5% to 3.0%. The following rates were the most common:

- 250 municipalities (41.6%) levied a tax of 1.0%;
- 123 municipalities (20.5%) levied a tax of 1.5%;
- 113 municipalities (18.8%) levied a tax of 2.0%.

These municipalities accounted for about 81% of all taxing municipalities. Of the remaining, 76 municipalities (12.6%) levied taxes at various rates from 0.5% to 2.0%, and 39 municipalities (6.5%) levied taxes at various rates from 2.0% to 3.0%. Ohio’s largest municipalities levied income taxes at rates at or above 2.0%.

Exemptions, Deductions, Credits

(R.C. 718.01, 718.15, and municipal ordinances)

State law requires the exemption of:

- Military pay or allowances.
- Income of religious, charitable, or educational institutions to the extent derived from tax-exempt property or activities.
- Interest and dividends.
- Pensions and disability benefits.
- Capital gains and losses.
- Compensation paid to certain employees of transit authorities.
- Public utilities that are subject to the public utilities excise tax. This does not include telephone companies and electric light companies, which are subject to the municipal tax under Ohio Revised Code Chapter 5745; see the Municipal Income Tax for Electric Light Companies and Telephone Companies chapter for details.

Personal exemptions are not granted.

Municipalities differ in other exemptions and deductions that are provided. For example, some municipalities tax lottery and gambling winnings, while others do not, and still others tax winnings above a specified minimum threshold. Also, some municipalities exempt income earned by individuals under 18 years old, while other municipalities do not specify a minimum age. Municipalities also differ on the number of years they allow businesses to carry forward a net operating loss, generally up to no more than five years. Municipalities' exemptions, deductions, and credits are typically detailed in their municipal ordinances and administrative rules.

Municipalities may grant a refundable or nonrefundable credit to foster job creation or job retention in that particular municipality. Before passing such an ordinance, the municipality and taxpayer must enter into an agreement specifying the conditions of the credit. Credits cannot last for more than 15 years.

Filing and Payment Dates

(R.C. 718.03, 718.05, and municipal ordinances)

Annual returns are due from taxpayers on the same date as federal and state returns, normally April 15. The annual municipal return reconciles tax liability with the amount remitted through withholding and quarterly estimated payments.

Revenue

In 2012, the latest year for which data is available, municipal income tax revenue totaled \$4.53 billion statewide. Revenues were highest in Ohio's three largest cities, accounting for almost a third of total statewide municipal income tax revenue:

- Columbus, \$734.6 million (16.2%)
- Cleveland, \$338.0 million (7.5%)
- Cincinnati, \$334.9 million (7.4%)

After these, three other cities had revenues over \$100 million:

- Toledo, \$158.5 million (3.5%)
- Akron, \$132.4 million (2.9%)
- Dayton, \$101.5 million (2.2%)

Revenue to these six cities accounted for about 40% of total statewide municipal income tax revenue in 2012.

All remaining 595 municipalities had revenues of less than \$100 million. According to survey responses from municipalities,

- 96 municipalities had revenues ranging from \$10 million to \$100 million,
- 216 municipalities had revenues from \$1 million to \$10 million, and
- The remaining 283 municipalities had revenues of less than \$1 million.

Disposition of Revenue

(Municipal ordinances)

Collections are usually placed into the general fund of the municipality imposing the tax. Some municipalities earmark portions of revenue for capital improvements, bond retirement, and administration of the tax.

Special State Law Provisions

(R.C. 715.691, 715.70, 715.71, 715.74, 718.04, 718.09)

Municipalities may offer partial or full credit to residents who pay municipal income taxes to a different municipality where they are employed.

Members and employees of the Ohio General Assembly and the lieutenant governor pay municipal income tax to the municipality of residence, not to the municipalities where their services are rendered.

Before 2001, if a school district was at least 95 percent coterminous with one or more municipalities, a municipal income tax could be enacted for which revenue is shared with the school district. Although the Ohio legislature revoked this authority for all other communities beginning in 2001, it has since re-enacted this authority under the condition that only residents would be subject to the municipal income tax.

State law allows Joint Economic Development Districts (JEDDs) and Municipal Utility Districts (MUDs) to levy income taxes for economic development purposes, subject to voter approval.

Responsibility for Administration

Municipal income taxes are administered either directly by the city or village that imposed the tax or a central collection agency representing various municipalities. About 240 municipalities, mainly smaller municipalities, contract with the Regional Income Tax Agency (RITA). In the northeast, the Central Collection Agency (CCA) administers collections for Cleveland and 38 surrounding municipalities as well as six JEDDs. The City of Columbus administers Columbus income taxes as well as the income taxes of six other municipalities and three JEDDs. Smaller municipalities also administer multiple communities. For example, the City of St. Marys in northwest Ohio is the administrative agent for income taxes from ten surrounding villages.

Ohio Revised Code Citations

Chapter 718.

Recent Legislation

H.B. 50, 129th General Assembly

Established a specific municipal income tax exemption on compensation earned by persons providing personal services to political subdivisions on its property when the property is annexed to a municipal corporation under an expedited Type II annexation procedure.

H.B. 289, 130th General Assembly

Terminated the authority to create new alternative joint economic development zones (JEDZ), created review councils to approve of economic development plans for alternative JEDZs created or substantially amended before 12/31/2014, eliminated municipal-only JEDZs, authorized municipal corporations to create municipal utility districts (MUDs) that levy income taxes for economic development purposes, subject to voter approval, and allowed existing municipal-only JEDZ to operate as MUDs.

H.B. 492, 130th General Assembly

Specified that a municipal corporation may award a job creation or retention credit against its income tax even when a state job creation or retention tax credit is not awarded to the employer.

History of Major Changes

1946	Toledo enacts first municipal income tax.
1957	General Assembly enacts Uniform Municipal Income Tax Law establishing broad regulations.
1987	General Assembly prohibits municipalities from taxing income from intangibles, unless voters in municipalities that already tax such income approve continuing to do beyond the 1988 tax year. Residents in two municipalities – Wyoming and Indian Hill – vote to continue to tax intangible income.
1992	Municipalities authorized to grant job creation credits.
1993	Legislature allows municipal income tax revenue to be shared with a school district.
1997	Municipalities are permitted to exempt stock options from taxation.
1999	Beginning in 2001, a nonresident working 12 or fewer days in a municipality is not subject to its municipal income tax, except for professional athletes, entertainers, or their promoters. Also, beginning in 2003, a municipality that taxes pass-through entities is required to grant resident taxpayers a credit for taxes paid by a pass-through entity to another municipality if the pass-through entity does not conduct business in the municipality where the taxpayer resides
2000	General Assembly prohibits new joint municipal/school district taxes
2004	Certain single member limited liability companies are permitted to elect to be separate taxpayers from their single members. Also, businesses are required to add-back tax exempt stock options in the apportionment of their net profits.
2007	General Assembly (H.B. 24) permits municipalities to allow an income tax deduction to self-employed taxpayers for amounts paid for medical care insurance for themselves, their spouses, and dependents.

Comparisons with Other States

Local governments can not impose income taxes in Texas and West Virginia. Similar taxes in other states are described below. No local governments levy income taxes in Georgia, North Carolina or Tennessee.

Indiana	A county may levy either a “county adjusted gross income tax” or a “county option income tax.” Counties are also permitted to levy a “county economic development income tax.” Overall, the total of a county’s economic development tax and the adjusted gross income tax cannot exceed 3.75%. The economic development tax combined with the county option income tax cannot exceed 3.5%. The economic development tax levied alone cannot exceed 0.75%.
Kentucky	Cities, counties, transit districts, and school districts may levy a license tax on the net profits of businesses located in the district and the salaries and wages of employees earned in the jurisdiction. Rates can vary between the two types of occupational license taxes.
Michigan	Cities may impose a tax up to the rate of 2% on residents and 1% on nonresidents. Detroit may impose rates of up to 2.4% for residents and 1.2% for nonresidents. The rate for nonresidents cannot exceed one-half of the rate for residents.
Pennsylvania	Municipalities may impose an earned income tax on wages and net profits. The tax may be imposed on either residents only or both residents and nonresidents. Most municipalities have a 1% cap. Home rule municipalities (such as Philadelphia, Pittsburgh, and Scranton) are not subject to the cap. If the local school district also imposes an earned income tax, the tax revenue must be shared between the school district and the municipality. Pittsburgh: The city imposes an earned income and net profits tax at the rate of 1 percent on: (a) salaries, wages, commissions and other compensation earned by residents or by nonresidents for services rendered or work done in Pittsburgh; and (b) the net profits of residents or nonresidents from businesses, professions, or other activities conducted in Pittsburgh. Additionally, the city levies a flat \$52 local services tax that is withheld in equal amounts from employee payrolls and a 0.55 percent tax on payroll amounts generated as a result of employers conducting business in the city. Philadelphia: The city imposes an earned income tax on salaries, wages, commissions, and net profits. The resident tax rate is 3.92%. The nonresident tax rate is 3.4915%.

Table 1			
Municipal Income Taxes Collected, 2008 - 2012			
Calendar Year	All Municipalities (601)	Cities (240)	Villages (361)
2008	\$4,164,530,259	\$3,834,293,562	\$330,236,697
2009	3,937,145,231	3,629,743,888	307,401,343
2010	4,052,605,606	3,749,316,357	303,289,248
2011	4,309,421,010	3,975,423,750	333,997,259
2012	4,528,544,397	4,178,641,914	349,902,483

Source: Data submitted to the Ohio Department of Taxation.

Table 2

Municipal Income Taxes						
Tax Amounts Collected, Aggregated by County, Calendar Year 2012						
County	Tax Revenue for Cities	Number of Cities	Tax Revenue for Villages	Number of Villages	Total Tax Revenue	Total Number of Taxing Municipalities
Adams	\$-	0	\$731,998	2	\$731,998	2
Allen	\$18,523,294	2	\$2,721,299	6	\$21,244,593	8
Ashland	\$8,287,703	1	\$1,143,104	3	\$9,430,807	4
Ashtabula	\$11,579,661	3	\$3,442,527	6	\$15,022,188	9
Athens	\$12,554,828	2	\$-	0	\$12,554,828	2
Auglaize	\$6,256,384	2	\$6,946,850	5	\$13,203,234	7
Belmont	\$2,930,313	3	\$906,237	2	\$3,836,550	5
Brown	\$-	0	\$1,792,321	5	\$1,792,321	5
Butler	\$75,118,403	5	\$6,482,751	2	\$81,601,155	7
Carroll	\$-	0	\$1,136,449	3	\$1,136,449	3
Champaign	\$5,787,653	1	\$801,678	4	\$6,589,331	5
Clark	\$31,286,097	2	\$547,820	3	\$31,833,916	5
Clermont	\$2,675,867	1	\$2,096,722	6	\$4,772,589	7
Clinton	\$4,057,123	1	\$255,636	1	\$4,312,759	2
Columbiana	\$8,155,431	3	\$4,259,547	6	\$12,414,979	9
Coshocton	\$4,241,293	1	\$343,148	1	\$4,584,441	2
Crawford	\$8,724,237	2	\$1,447,460	2	\$10,171,697	4
Cuyahoga	\$867,709,973	39	\$62,768,583	17	\$930,478,557	56
Darke	\$6,092,651	1	\$2,931,210	7	\$9,023,861	8
Defiance	\$6,964,616	1	\$1,077,756	2	\$8,042,372	3
Delaware	\$18,074,847	1	\$7,014,829	4	\$25,089,676	5
Erie	\$11,334,231	3	\$502,531	1	\$11,836,763	4
Fairfield	\$22,177,594	2	\$1,644,572	6	\$23,822,166	8
Fayette	\$5,125,433	1	\$234,179	2	\$5,359,611	3
Franklin	\$991,318,733	13	\$35,671,230	10	\$1,026,989,963	23
Fulton	\$3,399,448	1	\$6,242,790	5	\$9,642,237	6
Gallia	\$1,680,028	1	\$207,861	1	\$1,887,889	2
Geauga	\$-	0	\$9,567,386	4	\$9,567,386	4
Greene	\$23,414,762	2	\$1,903,508	3	\$25,318,270	5
Guernsey	\$6,355,372	1	\$330,574	1	\$6,685,946	2
Hamilton	\$474,370,883	19	\$30,726,089	13	\$505,096,972	32
Hancock	\$22,044,345	1	\$875,145	2	\$22,919,490	3
Hardin	\$2,897,915	1	\$2,079,767	6	\$4,977,683	7
Harrison	\$-	0	\$1,110,538	6	\$1,110,538	6
Henry	\$3,653,543	1	\$862,159	7	\$4,515,703	8
Highland	\$4,407,043	2	\$369,188	1	\$4,776,231	3
Hocking	\$2,728,770	1	\$-	0	\$2,728,770	1
Holmes	\$-	0	\$1,243,457	2	\$1,243,457	2
Huron	\$12,907,735	3	\$1,330,410	4	\$14,238,145	7
Jackson	\$1,064,634	1	\$-	0	\$1,064,634	1
Jefferson	\$11,755,523	2	\$2,319,548	4	\$14,075,071	6
Knox	\$10,128,973	1	\$1,624,148	4	\$11,753,121	5
Lake	\$87,536,143	9	\$3,525,328	7	\$91,061,471	16
Lawrence	\$2,205,791	1	\$255,268	1	\$2,461,059	2

Table 2 (continued)

Municipal Income Taxes Tax Amounts Collected, Aggregated by County, Calendar Year 2012 (continued)						
County	Tax Revenue for Cities	Number of Cities	Tax Revenue for Villages	Number of Villages	Total Tax Revenue	Total Number of Taxing Municipalities
Licking	\$29,258,440	3	\$7,021,191	4	\$36,279,631	7
Logan	\$5,269,335	1	\$805,625	7	\$6,074,960	8
Lorain	\$82,442,229	8	\$7,303,091	5	\$89,745,319	13
Lucas	\$215,790,254	4	\$12,083,354	4	\$227,873,608	8
Madison	\$3,231,497	1	\$5,129,193	4	\$8,360,690	5
Mahoning	\$52,564,262	4	\$2,045,611	2	\$54,609,872	6
Marion	\$12,675,374	1	\$26,352	1	\$12,701,726	2
Medina	\$35,752,088	3	\$2,026,584	2	\$37,778,672	5
Meigs	\$-	0	\$545,405	2	\$545,405	2
Mercer	\$4,803,971	1	\$3,373,741	4	\$8,177,712	5
Miami	\$28,996,188	3	\$1,986,329	4	\$30,982,517	7
Monroe	\$-	0	\$530,139	1	\$530,139	1
Montgomery	\$230,757,572	13	\$10,994,713	6	\$241,752,285	19
Morgan	\$-	0	\$489,984	2	\$489,984	2
Morrow	\$-	0	\$1,500,477	3	\$1,500,477	3
Muskingum	\$15,043,390	1	\$1,312,884	4	\$16,356,274	5
Ottawa	\$2,292,646	1	\$2,196,984	4	\$4,489,630	5
Paulding	\$-	0	\$815,798	5	\$815,798	5
Perry	\$830,328	1	\$677,105	2	\$1,507,433	3
Pickaway	\$4,719,868	1	\$1,602,304	3	\$6,322,172	4
Pike	\$1,315,869	1	\$519,982	1	\$1,835,851	2
Portage	\$40,786,367	4	\$2,564,163	5	\$43,350,530	9
Preble	\$3,552,343	1	\$1,042,970	4	\$4,595,313	5
Putnam	\$-	0	\$6,466,140	10	\$6,466,140	10
Richland	\$26,479,183	2	\$6,722,359	5	\$33,201,542	7
Ross	\$11,010,047	1	\$24,704	1	\$11,034,751	2
Sandusky	\$11,588,578	2	\$587,162	1	\$12,175,741	3
Scioto	\$328,132	1	\$1,529,261	1	\$1,857,394	2
Seneca	\$12,071,907	2	\$455,136	3	\$12,527,043	5
Shelby	\$13,379,525	1	\$3,181,099	6	\$16,560,625	7
Stark	\$80,001,163	5	\$7,513,649	8	\$87,514,812	13
Summit	\$270,135,419	13	\$15,694,227	9	\$285,829,645	22
Trumbull	\$28,731,869	4	\$9,471,646	3	\$38,203,515	7
Tuscarawas	\$14,538,520	3	\$4,538,225	13	\$19,076,745	16
Union	\$13,049,810	1	\$564,796	2	\$13,614,605	3
Van Wert	\$6,082,799	1	\$322,082	4	\$6,404,880	5
Warren	\$46,598,355	4	\$2,911,403	6	\$49,509,758	10
Washington	\$9,745,471	2	\$290,489	1	\$10,035,960	3
Wayne	\$16,871,362	3	\$2,884,924	10	\$19,756,285	13
Williams	\$6,879,298	1	\$3,972,355	6	\$10,851,653	7
Wood	\$39,016,016	4	\$3,298,076	13	\$42,314,092	17
Wyandot	\$2,525,166	1	\$1,407,170	3	\$3,932,335	4
Totals	\$4,178,641,914	240	\$349,902,483	361	\$4,528,544,397	601

Source: Data submitted to the Ohio Department of Taxation.

Twenty-four municipalities did not submit calendar year 2012 data. For these municipalities, revenues from the previous year were used.