



## 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 2013, the latest year for which data are available, municipal income tax revenue totaled \$4.7 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 various restrictions in the Revised Code, municipalities may currently specify other types of income that are subject to the tax in their local ordinances. House Bill 5 of the 130th General Assembly greatly limited this ability effective Jan. 1, 2016.

### 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 percent.

In 2013, the most recent year for which data are available, 609 municipalities (240 cities and 369 villages) levied an income tax. Rates ranged from 0.5 percent to 3.0 percent. The following rates were the most common:

- 252 municipalities (41.9 percent) levied a tax of 1.0 percent;
- 127 municipalities (20.9 percent) levied a tax of 1.5 percent;
- 111 municipalities (18.2 percent) levied a tax of 2.0 percent.

These municipalities accounted for about 80 percent of all taxing municipalities. Of the remaining, 76 municipalities (12.5 percent) levied taxes at various rates from 0.5 percent to 2.0 percent, and 41 municipalities (6.8 percent) levied taxes at various rates from 2.0 percent to 3.0 percent. Ohio’s largest municipalities levied income tax rates at or above 2.0 percent.

### Exemptions, Deductions, Credits

(R.C. 718.01, 718.15, 718.151 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 (this exemption expires on Jan. 1, 2016, but

in many cases may be covered under the expanded treatment of “casual entrants”).

- 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.

Under current law, municipalities have discretion to provide other exemptions and deductions. 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. This discretion is greatly reduced after Jan. 1, 2016, to establish a more uniform tax base.

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, 718.051, 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

Compiled from a Department of Taxation survey, in 2013, the latest year for which data is available, municipal income tax revenue totaled \$4.71 billion statewide. Revenues were highest in Ohio’s three largest cities, accounting for almost a third of total statewide municipal income tax revenue:

- Columbus, \$767.5 million (16.3 percent)
- Cleveland, \$345.3 million (7.3 percent)
- Cincinnati, \$334.4 million (7.1 percent)

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

- Toledo, \$158.5 million (3.4 percent)
- Akron, \$139.5 million (3.0 percent)
- Dayton, \$101.9 million (2.2 percent)

Revenue to these six cities accounted for 39.2 percent of total statewide municipal income tax revenue in 2013.

All remaining 603 municipalities had revenues of less than \$100 million. According to survey responses from municipalities:

- 97 municipalities had revenues ranging from \$10 million to \$100 million,
- 222 municipalities had revenues from \$1 million to \$10 million, and
- the remaining 284 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 et seq., 718.04, 718.09, 718.50)

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

(R.C. 718.01, 718.23, 718.24, and municipal ordinances)

Municipal income taxes are administered either by the city or village that imposed the tax or a central collection agency representing various municipalities. About 248 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 10 JEDDs. The City of Columbus administers Columbus income taxes as well as the income taxes of six other municipalities and three JEDDs. Smaller municipali-

ties also administer multiple communities. For example, the City of St. Marys in northwest Ohio is the administrative agent for income taxes from eleven surrounding villages.

## Ohio Revised Code Citations

Chapters 715 and 718.

## Recent Legislation

### HB 64, 131st General Assembly

Clarifies provisions on the treatment of a business’s net operating losses and the taxation of an individual’s foreign income and allowing municipal income tax sharing with school districts for certain municipalities in central Ohio.

### HB 289, 130th General Assembly

Terminated authority to create new alternative joint economic development zones (JEDZ) or substantially modify existing JEDZ, eliminated municipal-only JEDZs, authorized municipal corporations to create MUDs and allowed existing municipal-only JEDZs to continue operating as MUDs.

### HB 5, 130th General Assembly

Established a uniform tax base for all municipal corporations that levy an income tax by further defining the types of income that cannot be taxed and requiring that all businesses be allowed to deduct new net operating losses with a 5-year carryforward of such losses. Prescribed standards for determining an individual’s domicile for municipal income tax purposes and expanded prohibitions on taxation of occasional entrants. Made changes to apportionment methods and withholding requirements and established tax administration, assessment, collection, and enforcement procedures.

## 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 can 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 (HB 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.
2014	Effective Jan. 1, 2016, General Assembly (HB 5) adopts a uniform tax base, establishing a uniform 5-year carryforward of net operating losses (with some variations allowed due to grandfather clauses). Provides specific criteria for determining domicile.

## Comparisons with Other States

Georgia, North Carolina, Tennessee, Texas and West Virginia do not have local governments that impose income taxes. Similar taxes in other states are described below.

Indiana	Until June 30, 2016, 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.” The total of a county’s economic development tax and the adjusted gross income tax cannot exceed 3.75 percent. The economic development tax combined with the county option income tax cannot exceed 3.5 percent. The economic development tax levied alone cannot exceed 0.75 percent. All these taxes are to be replaced by a consolidated income tax by Jan. 1, 2017.
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.

## Comparisons with Other States - continued

Michigan	Cities may impose a tax up to the rate of 2 percent on residents and 1 percent on non-residents. Detroit may impose rates of up to 2.4 percent for residents and 1.2 percent for nonresidents.
Pennsylvania	<p>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.</p> <p>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.</p> <ul style="list-style-type: none"> <li>• Pittsburgh: The city imposes an earned income and net profits tax at the rate of 1 percent. 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.</li> <li>• Philadelphia: The city imposes an earned income tax on salaries, wages, commissions, and net profits. The resident tax rate is 3.9102 percent. The nonresident tax rate is 3.4828 percent.</li> </ul>

Table 1			
Municipal Income Taxes Collected, 2009 - 2013			
Calendar Year	All Municipalities (609)	Cities (240)	Villages (369)
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
2013	\$4,712,043,367	\$4,349,844,065	\$362,199,303

Source: Data submitted to the Ohio Department of Taxation.

Table 2						
Municipal Income Taxes						
Tax Amounts Collected, Aggregated by County, Calendar Year 2013						
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	0	\$733,583	2	\$733,583	2
Allen	\$18,490,198	2	\$3,303,995	6	\$21,794,193	8
Ashland	\$8,732,624	1	\$1,224,756	3	\$9,957,380	4
Ashtabula	\$11,620,725	3	\$3,483,954	6	\$15,104,680	9
Athens	\$12,862,129	2	\$0	0	\$12,862,129	2
Auglaize	\$6,673,276	2	\$7,142,697	6	\$13,815,973	8
Belmont	\$2,948,540	3	\$943,931	2	\$3,892,471	5
Brown	\$0	0	\$1,829,093	5	\$1,829,093	5
Butler	\$78,356,283	5	\$6,793,162	2	\$85,149,445	7
Carroll	\$0	0	\$1,232,992	3	\$1,232,992	3
Champaign	\$5,754,191	1	\$889,404	4	\$6,643,595	5
Clark	\$31,838,337	2	\$626,661	3	\$32,464,998	5
Clermont	\$2,988,382	1	\$2,446,066	6	\$5,434,448	7
Clinton	\$3,987,048	1	\$288,909	1	\$4,275,957	2
Columbiana	\$8,379,718	3	\$4,579,458	6	\$12,959,176	9
Coshocton	\$4,195,644	1	\$343,148	1	\$4,538,792	2
Crawford	\$8,876,395	2	\$1,453,170	3	\$10,329,565	5
Cuyahoga	\$895,522,528	38	\$73,209,912	18	\$968,732,440	56
Darke	\$6,188,319	1	\$3,148,227	7	\$9,336,546	8
Defiance	\$6,800,962	1	\$1,179,561	2	\$7,980,523	3
Delaware	\$20,557,766	1	\$7,635,450	4	\$28,193,217	5
Erie	\$12,272,928	3	\$493,130	1	\$12,766,058	4
Fairfield	\$22,304,749	2	\$1,623,584	7	\$23,928,333	9
Fayette	\$5,209,660	1	\$252,919	2	\$5,462,580	3
Franklin	\$1,045,686,788	13	\$37,596,601	10	\$1,083,283,389	23
Fulton	\$3,511,217	1	\$6,402,262	5	\$9,913,479	6
Gallia	\$1,660,582	1	\$160,782	1	\$1,821,364	2
Greene	\$23,202,447	2	\$10,670,932	7	\$33,873,379	9
Guernsey	\$7,420,599	1	\$345,220	1	\$7,765,819	2
Hamilton	\$476,665,663	19	\$31,947,368	13	\$508,613,031	32
Hancock	\$24,982,165	1	\$899,827	2	\$25,881,992	3
Hardin	\$2,861,347	1	\$2,073,782	7	\$4,935,129	8
Harrison	\$0	0	\$1,480,402	6	\$1,480,402	6
Henry	\$3,766,944	1	\$911,646	7	\$4,678,590	8
Highland	\$4,593,600	2	\$375,091	1	\$4,968,691	3
Hocking	\$2,696,897	1	\$0	0	\$2,696,897	1
Holmes	\$0	0	\$1,720,947	2	\$1,720,947	2
Huron	\$12,938,015	3	\$1,404,231	4	\$14,342,245	7
Jackson	\$1,160,290	1	\$0	0	\$1,160,290	1
Jefferson	\$12,236,858	2	\$2,186,122	4	\$14,422,980	6
Knox	\$11,210,717	1	\$1,773,792	4	\$12,984,509	5
Lake	\$88,171,333	9	\$3,968,598	7	\$92,139,931	16
Lawrence	\$2,205,791	1	\$255,268	1	\$2,461,059	2
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 2013 (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	\$29,663,939	3	\$6,584,901	4	\$36,248,840	7
Logan	\$6,013,107	1	\$966,261	9	\$6,979,368	10
Lorain	\$89,283,231	8	\$7,206,786	5	\$96,490,017	13
Lucas	\$220,872,778	4	\$12,034,679	4	\$232,907,458	8
Madison	\$3,786,434	1	\$4,087,896	4	\$7,874,330	5
Mahoning	\$51,570,806	4	\$2,069,808	2	\$53,640,614	6
Marion	\$14,123,960	1	\$32,150	2	\$14,156,110	3
Medina	\$36,239,727	3	\$1,947,551	2	\$38,187,278	5
Meigs	\$0	0	\$591,847	2	\$591,847	2
Mercer	\$5,006,263	1	\$3,645,799	4	\$8,652,062	5
Miami	\$30,075,751	3	\$1,954,892	4	\$32,030,644	7
Monroe	\$0	0	\$546,300	1	\$546,300	1
Montgomery	\$241,549,761	14	\$5,101,266	5	\$246,651,026	19
Morgan	\$0	0	\$452,599	2	\$452,599	2
Morrow	\$0	0	\$1,521,189	3	\$1,521,189	3
Muskingum	\$15,498,005	1	\$1,279,729	4	\$16,777,734	5
Ottawa	\$2,380,049	1	\$2,268,015	4	\$4,648,064	5
Paulding	\$0	0	\$819,235	5	\$819,235	5
Perry	\$768,950	1	\$687,843	2	\$1,456,794	3
Pickaway	\$4,760,280	1	\$1,692,099	3	\$6,452,379	4
Pike	\$1,407,985	1	\$443,504	1	\$1,851,489	2
Portage	\$42,946,471	4	\$2,600,555	5	\$45,547,027	9
Preble	\$4,195,462	1	\$1,207,903	4	\$5,403,365	5
Putnam	\$0	0	\$6,658,498	10	\$6,658,498	10
Richland	\$26,781,699	2	\$7,116,924	5	\$33,898,622	7
Ross	\$11,184,543	1	\$24,704	1	\$11,209,247	2
Sandusky	\$12,440,563	2	\$615,402	1	\$13,055,965	3
Scioto	\$10,223,100	1	\$1,529,824	1	\$11,752,923	2
Seneca	\$12,061,872	2	\$475,378	3	\$12,537,250	5
Shelby	\$14,074,908	1	\$3,607,715	6	\$17,682,623	7
Stark	\$84,064,306	5	\$7,774,463	8	\$91,838,769	13
Summit	\$285,644,952	13	\$17,032,668	9	\$302,677,620	22
Trumbull	\$27,909,664	4	\$7,517,026	3	\$35,426,690	7
Tuscarawas	\$15,712,438	3	\$4,927,660	13	\$20,640,098	16
Union	\$14,094,212	1	\$636,797	2	\$14,731,009	3
Van Wert	\$6,263,437	1	\$361,982	4	\$6,625,419	5
Warren	\$49,903,247	4	\$2,970,401	6	\$52,873,648	10
Washington	\$10,523,950	2	\$284,175	1	\$10,808,125	3
Wayne	\$17,353,618	3	\$2,988,264	10	\$20,341,883	13
Williams	\$7,251,079	1	\$4,040,465	6	\$11,291,544	7
Wood	\$41,855,161	4	\$3,441,367	14	\$45,296,528	18
Wyandot	\$2,826,700	1	\$1,422,146	3	\$4,248,847	4
<b>Totals</b>	<b>\$4,349,844,065</b>	<b>240</b>	<b>\$362,199,303</b>	<b>369</b>	<b>\$4,712,043,367</b>	<b>609</b>

Source: Data submitted to the Ohio Department of Taxation.

Fifty-five municipalities did not submit calendar year 2013 data. For these municipalities, revenues from the previous year were used.