Municipal Income Tax

Taxpayer

For most taxpayers, wages and salaries are subject to withholding by the employer who sends the payment monthly to the municipality.

Taxpayers who have taxable income on which tax has not been withheld must file quarterly declarations.

The tax also applies to businesses which have net profits earned within the municipality.

Tax Base

The tax is generally imposed on:

- 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 or, if that cannot be determined, net profits apportioned using equal weighting of property, payroll, and sales inside the municipal corporation relative to those factors for the business everywhere.

Rates

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

In 2004, the last year for which data is available, 556 municipalities (234 cities and 322 villages) levied the tax. Rates ranged from a low of 0.30% to 2.85%.

Major Exemptions

State law requires exemption of:

- Military pay or allowances.
- Income of religious, charitable, or educational institutions to the extent derived from tax-exempt property or activities.
- Public utilities that are subject to the public utility excise tax.
- Interest and dividends.

In addition, municipalities generally exempt the following:

- Old-age pensions and disability benefits.
- Capital gains and losses.

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Personal exemptions are not granted.

Revenue (In Millions)

Calendar Year	Total
1999	$3,178.8
2000	3,279.2
2001	3,353.9
2002	3,358.5
2003	3,443.7
2004	3,538.3

Disposition of Revenue

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

Payment Dates

Between January 1 and April 30, taxpayers generally file annual returns, reconciling tax liability with the amount remitted through withholding and estimated payments.

Taxpayers making quarterly estimated payments file an annual return by April 30 of the current taxable year, and quarterly payments are made by April 30, July 31, October 31, and January 31.

Special Provisions/Credits

Partial or full credit can be given to residents who pay municipal income taxes to a different municipality where they are employed.

Prior to 2001, if a school district is at least 95% coterminous with one or more municipalities, a municipal income tax can be passed for which the revenue is shared with the school district. The city of Euclid is the only municipality to have enacted such a tax, at a rate of 2.38% for the city and 0.47% for the school district. The Ohio General Assembly revoked this authority for all other communities effective December 2000.

Section of Ohio Revised Code

Chapter 718.

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Responsibility for Administration
Municipality imposing the tax or a central collection agency representing various municipalities.

History of Major Changes
1946 • Toledo enacted first tax.

1957 • General Assembly enacted Uniform Municipal Income Tax Law establishing wide regulations.

1987 • Municipality prohibited from imposing a tax on intangible income. Taxes already in effect permitted through tax year 1988, unless made permanent by referendum. Two municipalities used this option and continued to tax intangible income.

1992 • Municipalities authorized to grant job creation credits.

1993 • Authorized municipal income taxes to be shared with a school district.

1997 • Municipalities permitted to exempt stock options.

1999 • Effective January 1, 2002, electric utilities made subject to tax.
• More uniform standards established.
• Beginning in 2001, a nonresident working 12 or fewer days in the municipality is not subject to its municipal income tax. The 12-day rule does not apply to professional athletes, entertainers, or their promoters.
• Beginning in 2003, a municipality that taxes pass-through entities required to grant to 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.
• Tax Commissioner made responsible for administration of the tax as it applies to electric companies.

2000 • No new joint municipal/school district taxes permitted.

2003 • Effective January 1, 2004, telephone companies made subject to tax. The Tax Commissioner was made responsible for administration of the tax.

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2004 • Certain single member limited liability companies permitted to elect to be separate taxpayers from their single members.
• Businesses required to add-back tax exempt stock options in the apportionment of their net profits.

Comparisons with Other States (As of 01/06)
California
According to the California revenue and taxation code, no city, county, or municipality may levy a tax based on income. The following taxes are alternatives to an income tax.

Los Angeles:
A business tax is imposed on each person or entity engaged in business within the city of Los Angeles, with the exception of small business owners and creative artists. This tax is based on taxable gross receipts and is calculated according to type of business and amount of gross receipts.

San Francisco:
A 1.5% tax is imposed on an employer's payroll expense. Small businesses and biotechnology businesses (whose tax liability does not exceed $2,500) are exempt.

Indiana
County Adjusted Gross Income Tax:
Counties are authorized to levy a tax on resident individuals at the rate of 0.5%, 0.75%, or 1.0%, and on nonresidents at 0.25%. In addition, eligible counties may adopt a county adjusted gross income tax at the rate of 1.1% or 1.3%. The term of the county adjusted gross income tax is for four years, after which the rate drops to 1.0%. Eligible counties (depending on population size) may impose an additional county adjusted gross income tax at the rate of 0.15%, 0.2%, or 0.25% to fund construction and maintenance of a county jail.

Comparisons with Other States (As of 01/06)

County Option Income Tax:
Counties are authorized to impose a county option income tax which may be levied initially at 0.2% on resident county taxpayers and at a rate of 0.05% for all other county taxpayers. The rate on resident county taxpayers increases by 0.1% each July 1, until the rate equals 0.6%. A county income tax council may increase the rate from 0.6% to 1.0% in 0.1% annual increments. The rate for nonresident taxpayers is always one-fourth of the resident tax rate.

County Economic Development Income Tax:
Counties are authorized to impose a county economic development tax on residents and nonresidents employed in the county (excluding nonresidents that live in a county with an economic development income tax). The tax rate ranges from 0.1% to a maximum of 0.5%.

The total of a county's economic development tax and the adjusted gross income tax cannot exceed 1.25%; the economic development tax combined with the county option income tax cannot exceed 1.0% except under special circumstances when it could go to 1.25%.

Municipal Option Income Tax:
Eligible municipalities in Lake County may impose a municipal option income tax at a maximum rate of 1.0% on the adjusted gross income of resident taxpayers and a maximum rate of 0.5% on the adjusted gross income of all other municipal taxpayers.

Kentucky

Lexington-Fayette Urban County Government:
Imposes a 2.25% tax on income for work or services performed within the urban county. The tax is also imposed on net profits of businesses and professions conducted within the county.

Louisville and Jefferson County:
An annual license fee is imposed on wages earned by every employee and net profits of all businesses at a total rate of 2.2% (1.25% for the city of Louisville or Jefferson County, and 0.2% for mass transit purposes; plus 0.75% for public school boards in

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Comparisons with Other States (As of 01/06)

Jefferson County, including Louisville). Nonresidents are exempt from the additional school board tax.

Michigan

Cities may impose a tax up to the rate of 2.0% on residents and 1.0% on nonresidents. Beginning July 1, 1999 and each July 1 thereafter, Detroit's 3.0% maximum city tax rate on residents is reduced by 0.1% until the rate reaches 2.0%. A corresponding reduction for nonresidents also applies. In 2006, Detroit's tax rate is 2.5% for residents and 1.25% for nonresidents. The rate for nonresidents cannot exceed one-half of the rate for corporations or residents.

New Jersey

Newark:

The city imposes a payroll tax at the rate of 1.0% on all employers having a payroll of more than $2,500 per calendar quarter.

Waterfront Payroll Tax:

The Joint New Jersey-New York Waterfront Commission assesses a payroll tax of up to 2.0%. The tax is imposed on all employers who employ longshoremen, pier superintendents, hiring agents, and port watchmen from within the Port of New York District. The tax is computed on gross payroll with no exceptions.

New York

New York City:

A tax is imposed on residents and part-year residents of the city. Using the same filing status as under the state income tax, the starting point is state taxable income, with basic tax rates for tax year 2006 ranging from 2.907% to 3.648%. Like the state tax, an add-on minimum tax applies to tax preferences subject to the state minimum tax, at a rate of 2.5%.

Yonkers:

The city imposes a personal income tax on its residents and an earnings tax on its nonresidents with wage or self-employment earnings from working in Yonkers. The resident earnings tax equals 5.0% of state tax liability after nonrefundable credits. The nonresident earnings tax equals 0.25% of wages and self-employment earnings.

Comparisons with Other States (As of 01/06)

Pennsylvania

Pittsburgh:

The city imposes an earned income and net profits tax at the rate of 1.0% 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 0.55% 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 total combined resident tax rate is 4.301%. The total nonresident tax rate is 3.7716%.

Florida, Illinois, Massachusetts, Texas, and **West Virginia** do not allow the imposition of municipal income taxes.