

# Municipal Income Tax

## Taxpayer

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 earned net profits within the municipality.

Also, withholding responsibilities generally apply to employers located within municipalities that have enacted a tax.

## Tax Base

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.

## Rates

State law requires a flat rate within a municipality. The rate is determined locally. The maximum rate without voter approval is 1 percent.

In 2008, the most recent year for which data is available, 570 municipalities (236 cities and 334 villages) levied the tax. Rates ranged from 0.4 percent to 3 percent.

## Major Exemptions

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.
- 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.

- Interest and dividends.
- Pensions and disability benefits.
- Capital gains and losses.

Personal exemptions are not granted.

## Revenue

(in Millions)

| Calendar Year | Total     |
|---------------|-----------|
| 2004          | \$3,538.3 |
| 2005          | 3,776.5   |
| 2006          | 3,975.0   |
| 2007          | 4,106.0   |
| 2008          | 4,164.5   |

## Disposition of Revenue

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.

## Payment Dates

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.

## Special Provisions/Credits

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

Before 2001, if a school district was at least 95 percent coterminous with one or more municipalities, a municipality could enact an income tax for which revenue is shared with the school district. As of 2008, the city of Euclid is the only municipality to have enacted such a tax, at a rate of 2.38 percent for the city and

0.47 percent 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.

### 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.

### History of Major Changes

|             |  |
|-------------|--|
| <b>1946</b> | Toledo enacts first municipal income tax.  |
| <b>1957</b> | General Assembly enacts Uniform Municipal Income Tax Law establishing broad regulations.   |
| <b>1987</b> | 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.  |
| <b>1992</b> | Municipalities are given the authority to grant job creation credits.  |
| <b>1993</b> | Legislature allows municipal income tax revenue to be shared with a school district.   |
| <b>1997</b> | Municipalities are permitted to exempt stock options from taxation.  |
| <b>1999</b> | 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. |
| <b>2000</b> | 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** House Bill 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

(As of October, 2010)

**Florida, Illinois, Massachusetts, Texas,** and **West Virginia** do not allow local governments to impose income taxes. Similar taxes in other states are described below.

#### California

According to the California revenue and taxation code, no city, county, or municipality may levy a tax based on income.

In lieu of an income tax, the city of San Francisco imposes a 1.5 percent tax on employers' payroll expenses. Small businesses whose tax liability does not exceed \$2,500 are exempt. Certain exclusions are available for biotechnology companies and companies engaged in clean energy technology.

#### 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 percent. The economic development tax combined with the county option income tax cannot exceed 3.5 percent.

#### Kentucky

Cities, counties, transit districts, and school districts may levy an occupational business 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. The rates range from 0.25 percent to 2.5 percent of taxable earnings.

#### 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

2.5 percent for residents and 1.25 percent for nonresidents. The rate for nonresidents cannot exceed one-half of the rate for residents.

#### **New Jersey**

Newark imposes a payroll tax at the rate of 1 percent on all employers having a payroll of more than \$2,500 per calendar quarter.

#### **New York**

*New York City:* A tax is imposed on residents. Using the same filing statuses as under the state income tax, the starting point is state taxable income, with basic tax rates currently ranging from 2.55 percent to 3.4 percent. Like the state tax, an add-on minimum tax applies to tax preferences subject to the state minimum tax, at a rate of 2.85 percent.

*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 10 percent of state tax liability after nonrefundable credits. The nonresident earnings tax equals 0.5 percent of wages and self-employment earnings.

#### **Ohio**

**Municipalities may generally impose tax on wages, salaries, and other compensation earned by residents and by nonresidents who work in the municipality. The tax also applies to the net profits of business attributable to activities in the municipality, and to net profits from rental activities. The rate is determined locally, but the maximum rate without voter approval is 1 percent.**

#### **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 percent 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 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 3.93 percent. The nonresident tax rate is 3.5 percent.