

## MUNICIPAL INCOME TAX

### TAX BASE

The tax is generally imposed on:

Wages, salaries, and other compensation earned by residents of the municipality and by non-residents working in the municipality; and

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.

Rate is determined locally - maximum rate without voter approval is 1%.

Rates presently vary from a low of 0.25% to a high of 2.85%; over half of the rates are at 1%.

### 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 utilities tax;

Interest and dividends.

In addition, municipalities generally exempt the following:

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

Personal exemptions are not granted.

### REVENUE (IN MILLIONS)

Calendar Year	Total
1997	\$2,807.5
1998	3,009.4
1999	3,178.8
2000	3,279.2

## MUNICIPAL INCOME TAX

### 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.

### SECTIONS OF OHIO REVISED CODE

Chapter 718.

### RESPONSIBILITY FOR ADMINISTRATION

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

The Tax Commissioner administers the tax with respect to electric distribution companies.

### REMITTER OF TAX

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.

Businesses which have net profits earned within the municipality.

### PAYMENT DATES

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

Taxpayers making quarterly declarations file an annual estimated 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. No new levies of this type can be enacted.

## MUNICIPAL INCOME TAX

### HISTORY OF MAJOR CHANGES

- 1946 • Toledo enacted first tax.
  
- 1957 • General Assembly enacted Uniform Municipal Income Tax Law establishing statewide 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 continue to tax intangible income.
  
- 1992 • Municipalities authorized to grant job creation credits.
  
- 1993 • Authorized that income taxes can be shared with a school district.
  
- 1997 • Municipalities authorized to exempt stock options.
  
- 1999 • Effective in 2002, electric utilities made subject to tax.
  - More uniform standards established.
  - Beginning in 2001, a nonresident working in a municipality not subjected to municipal income tax if the nonresident works twelve or fewer days in the municipality. The twelve 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 tax as it applies to electric companies.
  
- 2000 • No new joint municipal/school district taxes permitted.

## MUNICIPAL INCOME TAX

### COMPARISON WITH OTHER STATES

#### California

##### Los Angeles

A payroll expense tax of \$33 per year is imposed upon every person who is engaged in business for the first \$4,000 of payroll plus \$8.25 per year for each additional \$1,000.

##### San Francisco

A 1.5% tax is imposed on an employer's payroll expense. Small businesses (tax liability not to exceed \$2,500) are exempt.

Both taxes are alternatives to the business tax. Taxpayers pay the greater of the payroll expense tax or the business gross receipts tax for each locality.

#### 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%, and on nonresidents at 0.25%. In addition, counties are authorized to adopt a county adjusted gross income tax at the rate of 1.1% or 1.3%, depending on population size. In both cases, the term is for four years after which the rate drops to 1.0%.

##### 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 1st, until the rate equals 0.6%. A county income tax council may increase the rate from 0.6% to 1% 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%.

## MUNICIPAL INCOME TAX

### COMPARISON WITH OTHER STATES (con't.)

#### Indiana (con't)

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's option income tax cannot exceed 1%, except under special circumstances when it could go to 1.25%.

#### Kentucky

Lexington-Fayette Urban County Government:

Imposes a 2.25% tax on income for work or services performed within the urban county. Also imposed on net profits of businesses and professions conducted within the county.

Louisville and Jefferson County:

An annual license fee 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, 0.2% for mass transit purposes; plus 0.75% for public school boards in Jefferson County, including Louisville). Nonresidents exempt from additional school board tax.

#### Michigan

Cities may impose a tax at the rate of 1% on residents, and 0.5% on nonresidents. Effective July 1, 1999 and each July 1 thereafter, Detroit's 3% maximum city tax rate on residents is reduced by 0.1% until the rate reaches 2%. A corresponding reduction for nonresidents also applies. The rate for nonresidents cannot exceed one-half of the rate for corporations or residents.

#### New Jersey

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

#### New York

New York City

The tax is imposed on resident individuals at graduated rates of 2.55% to 3.2%. In addition, resident individuals, estates, and trusts are subject to a surcharge of 7% or 14% depending on income level and filing status.

## MUNICIPAL INCOME TAX

### COMPARISON WITH OTHER STATES (con't.)

#### New York (con't)

Yonkers

A city income tax is imposed on residents at a rate of 15% of the net state tax. In addition, a tax of 0.5% is imposed on the wages earned and net earnings from self-employment within the city of all nonresidents.

#### Ohio

**A flat-rate income tax can be levied up to 1% without voter approval in all cities and villages. A tax exceeding 1% may be enacted only with voter approval. The tax is imposed on wages, salaries, and other compensation of individuals and net profits of businesses and professions received within the municipality.**

#### Pennsylvania

Cities and boroughs may tax earned income and occupational privilege taxes of individuals and businesses.

Pittsburgh imposes an earned income and net profits tax at 1%.

**Florida, Illinois, Massachusetts, Texas, and West Virginia do not impose municipal income taxes.**