



LOCAL TAXES
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. Net profits are 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 2005, the most recent year for which data is available, 558 municipalities (234 cities and 324 villages) levied the tax. Rates ranged from a low of 0.30% to 3.00%.

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.
- Pensions and disability benefits.
- Capital gains and losses (exempted by most cities; state law does not require exemption).

Personal exemptions are not granted.

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Revenue (In Millions)

Calendar

Year	Total
2001	\$3,353.9
2002	3,358.5
2003	3,443.7
2004	3,538.3
2005	3,776.5

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.

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 • Municipalities 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.
- 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 05/07)

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% tax on an employer's payroll expense. Small businesses and biotechnology businesses (whose tax liability does not exceed \$2,500) are exempt.



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Indiana*County Adjusted Gross Income Tax (CAGIT):*

Counties are authorized to levy a tax on the adjusted gross income (AGI) of resident individuals at the rate of 0.5%, 0.75%, or 1.0%, and on nonresidents at 0.25%. Eligible counties (depending on population size) may levy the tax at a higher rate. A portion of the tax revenue is designated for specific purposes.

County Option Income Tax (COIT):

Counties are authorized to impose a county option income tax on AGI which may be levied initially at 0.2% for resident county taxpayers and at a rate of 0.05% for all other county taxpayers. The rate may be increased in 0.1% annual increments up to a maximum tax of 1.0%. The rate for nonresident taxpayers is always one-fourth of the resident tax rate.

County Economic Development Income Tax (CEDIT):

Counties are authorized to impose a county economic development tax on the AGI of 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%. An additional 0.25% may be levied to offset the impact of Indiana's elimination of the tangible tax on inventory.

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%.

Kentucky

Cities, counties, and school districts may levy an occupational license tax on the net profits of businesses and/or on the salaries and wages of employees earned in the district. Rates can vary between the two types of occupational license taxes. The rates range from 0.25% to 3.55% of taxable earnings.

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.



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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% (1.45% for the city of Louisville or Jefferson County, plus 0.75% for public school boards in 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%. The reductions have been suspended since July 1, 2004. In 2007, 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 residents.

New Jersey

Newark imposes a payroll tax at the rate of 1.0% 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 and part-year residents of the city. 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 2.907% 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 2.85%.

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 10.0% of state tax liability after nonrefundable credits. The non-resident earnings tax equals 0.5% of wages and self-employment earnings.

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 1.0% cap. Home

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rule municipalities (e.g., 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 1.0% on:

- (i) salaries, wages, commissions, and other compensation earned by residents, or by non-residents for services rendered or work done in Pittsburgh; and
- (ii) 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.