

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.

Rate is determined locally – maximum rate without voter approval is 1.0 percent.

Rates presently vary from a low of 0.25 percent to a high of 2.85 percent; over half of the rates are at 1.0 percent.

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.



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- 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

<u>Year</u>	<u>Total</u>
1998	\$3,009.4
1999	3,178.8
2000	3,279.2
2001	3,353.9

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 percent 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.

SECTIONS 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 in a municipality not subject to municipal income tax if the nonresident works 12 or fewer days in the municipality. 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.

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- 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.

COMPARISONS WITH OTHER STATES (AS OF 12/03)

California

Los Angeles:

A payroll expense tax of \$33 per year is imposed on 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 percent tax is imposed on an employer's payroll expense. Small businesses (whose tax liability does not exceed \$2,500) are exempt.

Both municipal income 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 percent, 0.75 percent, or 1.0 percent, and on nonresidents at 0.25 percent. Eligible counties (depending on population size) may impose an additional county adjusted gross income tax at the rate of 0.15 percent, 0.2 percent, or 0.25 percent to fund construction and maintenance of a county jail. In addition, eligible counties may adopt a county adjusted gross income tax at the rate of 1.1 percent or 1.3 percent. The term of the county adjusted gross income tax is for four years, after which the rate drops to 1.0 percent.

County Option Income Tax:

Counties are authorized to impose a county option income tax which may be levied initially at 0.2 percent on resident county taxpayers and at a rate of 0.05 percent for all other county taxpayers. The rate on resident county taxpayers

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increases by 0.1 percent each July 1st, until the rate equals 0.6 percent. A county income tax council may increase the rate from 0.6 percent to 1.0 percent in 0.1 percent 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 percent to a maximum of 0.5 percent.

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

Municipal Option Income Tax:

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

Kentucky

Lexington-Fayette Urban County Government:

Imposes a 2.25 percent 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 percent (1.25 percent for the city of Louisville or Jefferson County, 0.2 percent for mass transit purposes; plus 0.75 percent for public school boards in Jefferson County, including Louisville). Nonresidents are exempt from the additional school board tax.

Michigan

Cities may impose a tax at the rate of 1.0 percent on residents, and 0.5 percent on nonresidents. Effective July 1, 1999 and each July 1 thereafter, Detroit's 3.0 percent maximum city tax

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rate on residents is reduced by 0.1 percent until the rate reaches 2.0 percent. 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 imposes a payroll tax at the rate of 1.0 percent 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 percent. 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 statuses as under the state income tax, the starting point is state taxable income, with basic tax rates for tax year 2003 ranging from 2.55 percent to 3.2 percent. A 14 percent additional surcharge applies, resulting in total tax year 2003 rates ranging from 2.907 percent to 3.648 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 5.0 percent of state tax liability after nonrefundable credits. The nonresident earnings tax equals 0.25 percent of wages and self-employment earnings, after an allowable exclusion of \$3,000 which phases out when earnings exceed \$30,000.

Ohio

A flat-rate income tax can be levied up to 1.0 percent without voter approval in all cities and villages. A tax exceeding 1.0 percent may be enacted only with voter approval. The tax is imposed on wages, salaries, and other compensation of individuals and net profits of

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businesses and professions received within the municipality.

Pennsylvania

Pittsburgh:

The city imposes an earned income and net profits tax at the rate of 1.0 percent on: (1) salaries, wages, commissions, and other compensation earned by residents; (2) salaries, wages, commissions, and other compensation of nonresidents for services rendered or work done in Pittsburgh; and (3) the net profits of residents or nonresidents from businesses, professions, or other activities conducted in Pittsburgh.

Philadelphia:

The city imposes an earned income tax on salaries, wages, commissions, and net profits. The total combined resident tax rate is 4.4625 percent (city tax at 2.9625 percent, Pennsylvania Intergovernmental Cooperation Authority Tax at 1.5 percent). The total nonresident tax rate is 3.8801 percent.

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

