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 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 2006, the most recent year for which data is available, 566 municipalities (235 cities and 331 villages) levied the tax. Rates ranged from 0.30 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. (Note: 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
2002	$3,358.5
2003	3,443.7
2004	3,538.3
2005	3,776.5
2006	3,975.0

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

Taxpayers file annual returns on the same dates as those required for filing federal and state returns. The annual municipal return reconciles tax liability with the amount remitted through withholding and estimated payments.

While municipalities typically require taxpayers to make quarterly estimated payments, employer withholding usually satisfies this requirement for those taxpayers who have municipal taxes withheld.

Employers must withhold municipal income taxes throughout the year and must remit the amounts required to be withheld.

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 municipal income tax could be enacted for which 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 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

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

History of Major Changes

1946 Toledo enacts first municipal income tax.

1957 General Assembly enacts Uniform Municipal Income Tax Law establishing broad regulations.

1987 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.

1992 Municipalities are authorized to grant job creation credits.

1993 Legislature allows municipal income taxes to be shared with a school district.

1997 Municipalities are permitted to exempt stock options.

1999 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.

2000 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 General Assembly prohibits municipalities from requiring businesses to withhold municipal income taxes from sickness or accident disability payments, effective July 1, 2007. However, recipients of these payments are still liable for municipal taxes. Also:

- Effective Aug. 1, 2007, the General Assembly exempts compensation paid to employees within a U.S. Air Force base from municipal taxation, unless the employee resides within that municipality.
- Beginning with the 2008 tax year, sole proprietors are permitted to deduct from their net profit, to the extent allowable on their federal return, the cost of medical insurance premiums for themselves, their spouse, and dependents.

Comparisons with Other States (As of 01/08)

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

County Adjusted Gross Income Tax – Counties are authorized to levy a tax on the adjusted gross income of resident individuals at the rate of 0.5 percent, 0.75 percent, or 1 percent, and on nonresidents at 0.25 percent. 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 – Counties are authorized to impose a county option income tax on adjusted gross income which may be levied initially at 0.2 percent for resident county taxpayers and at a rate of 0.05 percent for all other county taxpayers. The rate may be increased in 0.1 percent annual increments up to a maximum tax of 1 percent. The rate for nonresident taxpayers is always one-fourth of the resident tax rate.

Starting in 2007, rates for either the adjusted gross income tax or the county option income tax may be increased by up to 2 percent for property tax relief and an additional 0.25 percent for public safety spending.

County Economic Development Income Tax –

Counties are authorized to impose a county economic development tax on the adjusted gross income 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 percent to a maximum of 0.5 percent. An additional 0.25 percent 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 3.75 percent. The economic development tax combined with the county option income tax cannot exceed 3.5 percent.

Kentucky

Cities, counties, and school districts may levy an occupational license tax on the net profits of businesses located in the district and 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 percent to 2.5 percent of taxable earnings.

Lexington-Fayette Urban County Government – A 2.25 percent tax on income is imposed on 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 (1.45 percent for the city of Louisville or Jefferson County, 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 up to the rate of 2 percent on residents and 1 percent on nonresidents. 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 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 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 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 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 the 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 total combined resident tax rate is 4.26 percent. The total nonresident tax rate is 3.756 percent.

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