



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

**Bill:** S.B. 26 of the 128th G.A.

**Date:** March 17, 2009

**Status:** As Introduced

**Sponsor:** Sen. Schaffer

**Local Impact Statement Procedure Required:** Yes

**Contents:** Requires municipal corporations with more than \$100 million in annual income tax collections to provide a tax credit to nonresident taxpayers

### State Fiscal Highlights

- No direct fiscal effect on the state.

### Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2010	FY 2011	FUTURE YEARS
<b>Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo</b>			
Revenues	Loss in the millions	Loss in the millions	Loss in the millions
Expenditures	Potential increase	Potential increase	Potential increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- The bill requires Akron, Cincinnati, Cleveland, Columbus, Dayton, and Toledo to provide a tax credit and refunds to certain nonresident income taxpayers.

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## Detailed Fiscal Analysis

### Senate Bill 26

The bill requires municipal corporations with annual income tax collections of \$100 million or more in any calendar year (CY) after 2007 to grant an income tax credit to nonresidents who pay income tax to their municipality of residence. The nonresident's credit is the higher of (1) 10% of the nonresident's tax liability or (2) the nonresident's tax liability in excess of 2% of the nonresident's taxable income. If the credit results in an overpayment of tax to the city of employment, the nonresident taxpayer may elect to have the overpayment refunded or applied to the next year's tax liability. The bill applies to any municipal corporation that annually collects over \$100 million in income taxes from all taxpayers (individuals or otherwise), beginning in 2008 or the calendar year following the first year for which the municipal corporation's collections exceed \$100 million. Once the credit requirement applies, it continues to apply even if collections fall below \$100 million in a later year.

Municipal income taxes are generally imposed on wages, salaries, and other compensation earned by residents and nonresidents working in a taxing municipality. The municipal income tax also applies to business net profits attributable to activities in municipalities. The municipal income tax may be administered locally. Alternatively, cities and villages contract with associations such as the Regional Income Tax Authority (RITA) or the Central Collection Agency (CCA)<sup>1</sup> to lower the cost of administration and collection of their income tax. Practices regarding tax credits for taxes paid in other municipalities vary greatly. Some municipalities allow their own residents a full or partial credit for income taxes paid to their city of employment, if this differs from their city of residence. Other municipalities grant no tax credit for income taxes paid elsewhere. Earnings may then be taxed by both the municipality of employment and the municipality of residence.

### Fiscal Effect

According to the Department of Taxation, Ohio municipalities collected \$3,975.0 million in income tax revenues in CY 2006, of which about 92% were income tax receipts to cities. Columbus, Cleveland, Cincinnati, Toledo, Akron and Dayton were the only cities with income tax collections exceeding the \$100 million threshold that year, ranging from \$517.6 million for Columbus to \$113.8 million for Dayton.<sup>2</sup> Taxes of \$1.5 billion collected by those cities were about 39% of all income taxes collected in the state in 2006. Current tax rates are 2.00% in Columbus and Cleveland, 2.10% in

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<sup>1</sup> RITA collects municipal income tax for about 158 municipalities in 49 counties. CCA collects municipal income tax for about 50 municipalities near Cleveland. The City of Columbus administers the income tax of six other surrounding municipalities.

<sup>2</sup> The city with the next-highest collections that year was Dublin with \$65.2 million.

Cincinnati, and 2.25% in Toledo, Dayton, and Akron. Cities have experienced uneven growth in income tax collections. For example, between CY 1997 and CY 2006, income tax revenue for Columbus grew 4.4% annually, Akron, 4.1%, Cincinnati, 3.8%, Cleveland, 1.9%, Toledo, 1.3%, and Dayton, 0.5%. It is likely that the current economic downturn has reduced those growth rates in the last two years.

LSC has not found published information on the share of income taxes paid by nonresidents and the actual amount of taxes paid by nonresidents to Ohio municipalities is unknown. According to an Ohio Municipal League Survey conducted in 1999, the contribution of nonresidents to income tax collections varied from about 20% in Toledo to about 69% in Cleveland.<sup>3</sup> Nonresidents contributed about 34% to Columbus, 57% to Cincinnati, and 46% to Dayton. Using estimated nonresidents' shares of municipal income taxes, the potential revenue loss to cities affected by this bill would have been up to \$71 million in CY 2006. The potential revenue loss may be higher if current overall income tax collections or the share of nonresident income tax payments are higher than in CY 2006. Any increases in tax rates in the six cities affected by the bill will increase the potential revenue loss. Alternatively, any rate decreases will reduce the estimated revenue loss.

The bill potentially requires the six largest cities in the state to calculate the tax liability of nonresident taxpayers. Generally, an employee provides their municipality of residence to an employer which may then withhold income taxes for the city of employment, the city of residence, or both. In certain cases, the employee does not provide to the employer their city of residence or the employer does not withhold any tax for the employee's city of residence. The calculation of the credit implies that the six cities may have to know the locality of residence of all taxpayers who earn compensation or business profits within city limits to compute the nonresident tax credit and provide any tax refunds. Assuming that nonresidents would have to file tax returns with the city of employment, municipal income taxes were withheld through payroll deduction or paid directly to the city by the nonresidents, the bill will increase the costs of administration of the income tax for the six largest cities in Ohio.

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<sup>3</sup> Composition of municipal income tax by resident status is not collected or published by Ohio cities. Nonresidents' contributions to municipal income tax were calculated using an Ohio Municipal League survey of nonresident's income tax contributions to the general revenue funds of Ohio cities.