

Fiscal Note & Local Impact Statement

123rd General Assembly of Ohio

BILL: Sub. H.B. 477 DATE: November 9, 1999
STATUS: As Introduced SPONSOR: Rep. Mottley
LOCAL IMPACT STATEMENT REQUIRED: Yes
CONTENTS: Makes various changes to municipal income tax law

State Fiscal Highlights

STATE FUND	FY 2000	FY 2001	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Minimal Cost	Minimal Cost	Minimal Cost

Note: The state fiscal year is July 1 through June 30. For example, FY 2000 is July 1, 1999 – June 30, 2000.

- The Department of Taxation is required to maintain a central Internet site that contains links to all municipal corporations levying an income tax. This site will most likely be on the department's existing website (www.state.oh.us/tax/) and will require annual administration costs to maintain it. If the department is required to convert tax information to a web friendly document, then a larger cost will be incurred.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2000	FY 2001	FUTURE YEARS
Municipal Corporations			
Revenues	Potential Minimal Loss	Potential Minimal Loss	Potential Minimal Loss
Expenditures	Potential Minimal Increase	Potential Minimal Increase	Potential Minimal Increase

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

- With approximately 50 percent of all municipalities levying an income tax (but representing most of the municipal population), each with their own set of rules and ordinances, there is a wide range of fiscal effects from the provisions in this bill. LBO estimates the revenue impact of the bill will result in an overall minimal loss to a municipality.
- Provisions effective within one year of bill's passage: Exempt parsonage allowances, safe harbors for new residents, and Appeals Board.
- Provisions not effective till January 1, 2001: Exemption of occasional entrants, \$150 in taxes threshold before withholding is required, Fringe benefits not taxable, Generic Tax returns and internet access, and alignment with federal filing extension.



- Provisions not effective till January 1, 2003: Consolidate Corporation returns, uniform estimated tax payment schedule, and pass-through entity credit.

Detailed Fiscal Analysis

The Ohio Constitution (Article 18.01) defines a municipal corporation as containing cities and villages, in which a village contains less than 5,000 residents and a city has 5,000 or more residents. Municipalities have all the powers of local self-government (Article 18.03), subject to limitation by the legislature, including levying a municipal income tax. In 1997, 536 of 952 municipalities (236 cities and 300 villages) levied an income tax at an average rate of 1.85 percent, with a minimum of 0.4 percent (Indian Hill Village) and a maximum of 2.85 percent (Euclid). The bill makes various changes to municipal income taxation law.

Parsonage Allowances

The bill would prevent the taxation of parsonage allowances, which is either residential rental compensation or rental value of furnished residences paid to a minister of the gospel. Parsonage allowances are not taxed under the federal or Ohio income tax.

Currently, the majority of municipalities do not tax parsonage allowances and therefore, exempting parsonage allowances results in a minimal revenue loss.

Occasional Entrants to a Municipal Corporation

Beginning January 1, 2001, the bill would prevent the taxation of the compensation paid to an individual for personal services performed within the municipal corporation that meets the following requirements:

- (1) The services are performed on no more than 12 days in a calendar year;
- (2) The person is not a resident of the municipal corporation;
- (3) The principle place of business of the person or of his or her employer is outside the municipal corporation.

The exemption does not apply to professional entertainers or professional athletes.

Currently, only the high profile services are sought for income tax compliance. Many smaller entrants into a municipality escape municipal income taxation. The bill will work to provide a standard set of taxation principles that may make it easier for the occasional entrant to now be taxed and revenue to be collected.

\$150 Threshold

Beginning January 1, 2001, the bill does not require an employer to deduct and withhold municipal income taxes from employees unless the total amount of tax to be collected from all employees exceeds \$150 in a calendar year. If the \$150 threshold is exceeded, a municipality may require the employer to withhold taxes in each ensuing year, even if the amount is less than \$150. If, after exceeding the \$150 threshold in one year, the \$150 threshold is not exceeded for three consecutive years, then the municipality may not require the employer to withhold taxes.

With a statewide average income tax rate of 1.85 percent, an average employer would need to pay more than \$8,108.11 in compensation before withholding is required. The bill will allow small entrants into a municipality to be exempt from income taxation, but provides a standard set of taxation principles that allow municipalities to better collect revenue.

Compensation Against which Taxes may be Withheld

Beginning in 2001, the bill requires an employer to withhold municipal income tax only against compensation that is subject to Social Security, Medicare, and supplemental unemployment compensation benefits. Municipal corporations may not require income tax withholding against fringe benefits.

Generic Tax Returns and Forms, Internet Availability

Beginning January 1, 2001, municipal corporations must accept a generic income tax return form, if the return contains all necessary filing information. The Ohio Municipal League reports that many accounts currently use generic tax forms. The selection of such a form will not impose a large additional cost on municipalities.

Rules or ordinances governing the municipal income tax must be publicly available on the internet, including tax returns, forms, and instructions. By December 31, 2001, each municipality with an income tax must link their internet-accessible site to a central site established by the tax commissioner. It is likely that the Department of Taxation's current website will house links to municipal income taxation documents, which will pose little additional cost to the department. Cost could be substantial if the Department of Taxation is required to code all tax documents to be web friendly.

Filing Extension

Beginning January 1, 2001, any taxpayer that has requested an extension for filing a federal income tax return may request an extension for the filing of a municipal income tax return. The requested must be granted for at least the same period as the federal extension. The request may be denied if the taxpayer does not file the request in time, fails to file a copy of the request for the federal extension, owes the municipal corporation any delinquent income tax or any penalty, interest, assessment, or other charge, or has failed to file any required income tax return, report, or other related document for a prior tax period. This extension does not extend the payment due date.

Consolidated Corporation Returns must be Accepted

Beginning January 1, 2003, a municipality must accept consolidated returns from groups of corporations that file consolidated federal corporation income tax returns. This would allow consolidated filers to offset operating losses of some group members against operating profits of other group members.

Estimated Tax Payments

Beginning January 1, 2003, the bill prescribes a uniform schedule under which municipal corporations may require taxpayers to make estimated tax payments, if required by municipal corporation. The schedule is presented in Table 1

Table 1	
Uniform Estimated Tax Payment Schedule	
April 30	Not more than 22.5%
July 31	Not more than 45.0%
October 31	Not more than 67.5%
January 31	Not more than 90.0%

Safe Harbors

The bill prohibits the municipality from imposing any penalty, interest, interest penalty, or similar charge if the taxpayer is an individual who resides in the municipality but was not domiciled there on January 1 of the current year or the taxpayer has remitted an amount at least equal to 100 percent of the taxpayer’s liability of the preceding year.

Tax Treatment of Pass-Through Entities; Credits

Beginning January 1, 2003, municipal corporation taxing pass through entities must specify, by ordinance or resolution, whether the tax is imposed on the entity or the individual owners.

Beginning January 1, 2003, municipal corporations that impose a tax to income from a pass through entity shall grant a credit to taxpayers who reside in the municipality for taxes paid to another municipality by a pass through entity that does not conduct business in the municipality. The amount of the credit shall equal the lesser of the following:

- The amount of the tax paid by the pass-through entity to another municipal corporation in this state, apportioned to the individual taxpayer’s ownership proportionate to the ownership interests to all owners of the entity.
- The amount of the tax that would be imposed on the pass-through entity by the municipality in which the taxpayer resides if the pass-through entity conducted business in the municipality, apportioned accordingly by the taxpayer’s proportional ownership of the entity.

If the municipality has a policy of granting only a partial credit to residents for income taxes paid to another municipality, then the credit for taxes paid on a pass-through entity income must be reduced by the same percentage.

Currently, many of the municipalities already provide a full or partial credit to prevent double taxation. The bill imposes a minimal revenue loss in taxation of pass-through entities.

Taxpayer Appeals

No later than 180 days after the enactment of this bill, each municipality that imposes an income tax must establish by ordinance a board to hear taxpayer appeals. Each board must adopt rules governing its procedures and keep a record of its transactions. But, the records are not open to public inspection and meetings of the appeals board are not subject to the state’s open meetings laws. Municipal tax administrators must inform taxpayers of their right to appeal when issuing decisions that are appealable to the appeals board. The Ohio Municipal League reports that all but one municipality currently has an appeals board, but the bill is flexible enough to not incur large additional costs to the boards creation.

Fiscal Effect

Overall, municipalities levying an income tax will see a minimal revenue loss from the changes made in this bill. The area for the biggest revenue loss potential is the occasional entrant exemption. It is possible for a municipality to incur a somewhat large revenue loss from higher wage entrants (CEOs, computer programmers, etc.); but it is also possible these occasional entrants are not currently taxed and work more than 12 days in a municipality, which would require payment of the municipality's income tax.

Some municipalities may experience an expenditure increase from the Internet availability of tax documents requirement. The Ohio Municipal League reports that 230 of the 536 municipalities levying an income tax already have an Internet website. A few municipalities even "piggy-back" off a neighboring community's website.

All but one municipality currently have an appeals board and the no additional cost will be imposed in setting up this one board (Ohio Municipal League).

The Department of Taxation will experience a minimal cost increase in maintaining a central website linking all municipalities' tax document information. This cost would be considerably increased if the Department of Taxation were required to convert the tax documents for web publication.

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