

Columbus Income Tax Newsletter

January 2001

STATE LAW CHANGES THAT AFFECT MUNICIPAL TAXATION

Ohio House Bills 477 and 483, enacted in 2000, changed the State law that regulates municipal income taxes. The following changes take effect on January 1, 2001:

12 day entry rule- Stipulates that a municipal corporation may not tax compensation paid to an individual for personal services performed within the municipal corporation if the individual: 1) does not reside in the municipal corporation, 2) performs such personal services in the municipal corporation on 12 or fewer days in a calendar year, and 3) is not a professional athlete or entertainer. Also, if the individual is an employee, the principal place of business of the individual's employer must be located outside the municipal corporation. If services are performed in excess of 12 days, the individuals entire compensation becomes subject to the tax.

\$150 withholding rule - Stipulates that a nonresident employer cannot be required to withhold city tax from the taxable income of an employee unless the total amount of tax required to be deducted and withheld for the city on account of all of the employer's employees exceeds \$150 for a calendar year. If and when the amount of tax required to be withheld from all employees exceeds \$150, then withholding is required on the total amount (including the initial \$150).

Board of Tax Appeals - Columbus has instituted a Board of Tax Appeals to hear appeals to rulings and assessments made by the Income Tax Administrator.

AUTHORIZED TAX FORMS

The Columbus Income Tax Division will accept authorized forms distributed by the Division, approved facsimiles of these forms and approved generic forms. For a generic form to be accepted, it must provide all information required to be reported and it must report that information in the same manner and location as the forms distributed by the Division. Forms developed from pre-approved software packages will be accepted. Taxpayers and preparers are requested to use pre-encoded forms provided by the Division.

SEPARATE MUNICIPALITIES - ONE FORM

The Columbus Income Tax Division collects the city income tax for Columbus and nine other municipalities. Our forms allow for the reporting of tax liabilities and remittance of tax to all municipalities in our collection group on one form. Please use only one form when remitting payments and reporting liabilities to more than one city or village in our collection group. Using a separate form for each city considerably slows down our processing payments, posting complete returns and issuing refunds. Also, be advised that losses attributed exclusively to one municipality may not offset income attributed exclusively to another. Employers and payroll service providers reporting and paying tax withheld from employees' wages should also use one form to report tax withheld to all cities in our group.

COMMON PAYMASTER ACCOUNTS

All taxpayers and preparers that utilize a common paymaster are asked to designate on their returns the name and E.I.N. of the common paymaster. Preparers having a large number of accounts related to a single common paymaster are requested to provide a listing of such accounts so that each account can be properly referenced.

YEAR 2001 MAILING ADDRESSES

Mailing addresses to be used in 2001 are as follows:

-Withholding tax returns and payments (lockbox):

**CITY TREASURER
DEPT 448
COLUMBUS, OH 43265-0448**

-Individual and Business returns and payments (lockbox):

**CITY TREASURER
DEPT L 1695
COLUMBUS, OH 43260-1695**

-General correspondence (office address):

**COLUMBUS INCOME TAX DIVISION
50 W GAY ST 4TH FL
COLUMBUS, OH 43215-9037**

-Internet address (to view and download forms and instructions):

<http://auditor.ci.columbus.oh.us/tax/taxforms.htm>

CITY TAX RATES ON THE WEB

The municipal tax rates for all cities and villages in Ohio can be found on our web site at: <http://auditor.ci.columbus.oh.us/tax/munilist.htm>

COLLECTION GROUP TAX RATES

Tax rates to be used in 2001 for tax year 2000 returns and tax year 2001 declarations and withholding returns for the cities and villages in our collection group are as follows:

Columbus	2%	Canal Winchester	2%
Worthington	1.65%	Marble Cliff	1%*
Grove City	2%	Brice	1%
Groveport	2%	Lithopolis	1%
Obetz	2%	Harrisburg	1%

* 2% effective 1/1/2001

EXTENSION OF FILING DATES

Extensions of up to six months for filing forms IR-22, IR-25 and BR-25 and one month for filing form IT-13 (Annual Reconciliation of Tax Withheld) may be obtained on or before the original due date of the return being extended. The postmark date will be used to indicate compliance with this extension policy. Copies of federal extension forms or client extension lists from practitioners will be accepted. All extension requests must contain the taxpayer's name, address, FID/SSN and the length of the extension period requested. City tax forms IT-21 (Declaration of Estimated Tax) and IT-11 (Quarterly Return of Tax Withheld) may not be extended.

COLUMBUS TO TAX GAINS RESULTING FROM THE SALE OF BUSINESS PROPERTY

Beginning with tax years commencing on or after January 1, 2001 (2001 tax returns), taxpayers will no longer be able to deduct gains (capital or ordinary) resulting from the sale of business property when determining taxable net profits for Columbus tax purposes. Conversely, losses resulting from the sale of business property will no longer be required to be added back to determine Columbus' taxable net profits.

AUDIT ALERT

Please be aware of the following items that are most frequently questioned or changed upon audit. Care in reporting these items will greatly reduce questions and changes to your return.

- All returns are reviewed to ensure that income is reported properly to the city in which it was earned and, if applicable on an individual return, the taxpayer's resident city.

- Withholding returns are reviewed to ensure that the proper payment frequency is being followed.

- Business returns are reviewed to ensure that Schedule Y allocation and Schedule X taxable/non-taxable figures are correct.

- Individual returns are reviewed to ensure that all deductions (2106, etc.) are taken from the proper city to which tax was paid. *Employer certifications are required on Form IR-22 for refunds of withholding tax to individuals (for days worked out by nonresidents, etc.).*

YEAR 2001 INTEREST RATE

For the year 2001, the interest rate used by the Cities of Columbus and Worthington and the Village of Harrisburg is 9% per annum. The annual rate used by all other municipalities in our collection group continues to be 18%.

S-CORPS & LLCs

Please remember, all corporations, regardless of how they are treated for federal tax purposes, are taxed by Columbus and the other cities in our group as entities on the taxable net profits of the corporation before distributing any shares or dividends to shareholders. For tax years beginning after 12/31/2000, a Columbus resident who is a shareholder in an S-Corp will be taxed on his/her share of the S-Corp's net profits. The resident shareholder shall be given full credit for all city tax paid on the S-Corp's net profits by the corporation. A limited liability company should file as either a corporation, partnership or individual (single member) in accordance with its federal filing requirement.

UNIVERSAL FILING

Please remember that all residents of the Villages of Harrisburg and Lithopolis have a universal filing requirement to file a city return each year. All residents of these municipalities must file Form IR-22 with the Columbus Income Tax Division by April 15th even if all taxes have been properly withheld.

WITHHOLDING INFORMATION

All employers are encouraged to check the amount of tax withheld at the end of each calendar quarter and year to ensure that tax is being remitted on the proper quarterly, monthly or semimonthly payment schedule. If total taxes withheld in the prior calendar year were \$12,000 or more or in any month in the preceding quarter exceeded \$1,000, semimonthly payments are required. If total taxes withheld in the prior calendar year were less than \$12,000 but more than \$3,599 or in any month in the preceding quarter exceeded \$300, monthly payments are required. Quarterly payments are required from all employers not required to make semi-monthly or monthly payments. Penalty (50% of the tax liability for Columbus, Worthington and Harrisburg or 10% for all others in our collection group) and interest (9% for the Cities of Columbus and Worthington and the Village of Harrisburg or 18% for all others in our collection group) will be charged on all late payments. Employers using a payroll service retain the legal responsibility for payment of the tax and filing of returns and the liability for all late payment or late filing charges. Employers are also encouraged to use the current pre-encoded payment coupons (form IT-15) and quarterly returns (form IT-11) provided by the Division prior to each quarter to remit payments and file returns. Use of these forms will greatly ensure that payments and returns are processed to the proper quarter. A quarterly return (form IT-11) is required to be filed in the month following each calendar quarter by all employers having an active account regardless of the employer's payment frequency and whether or not wages were paid or taxes withheld during the quarter. *Employers and payroll services should use one form to report the city tax withheld to all cities during the same period.*

If an employer withholds tax from an employee at a rate in excess of the proper tax rate, a refund will be issued to the employer upon presentation of a refund claim form (form IT-6W) obtainable from the Income Tax Division. Employers must also submit an amended IT-11 form for the quarter or quarters affected and a corrected W-2 form for the employee in question.

Income which is considered subject to city tax and withholding by the Income Tax Division includes but may not be limited to the following:

Gross wages, salaries, commissions and other compensation to include:

1. Bonuses.
2. Compensation paid in property or the use thereof at fair market value to the same extent as taxable for Federal tax purposes and so indicated on the Form W-2.
3. Contributions made by or on behalf of employees to a cafeteria plan.
4. Contributions made by or on behalf of employees to a qualified deferral plan (401K and the like) - taxed at year earned, deferral not permitted.
5. Contributions made by or on behalf of employees to nonqualified deferral plans. Taxed in the year recognized as income in Box 5 of employee's Form W-2 when no longer subject to substantial risk of forfeiture. Not taxed in year of distribution.
6. Contributions made by or on behalf of employees to a tax deferred annuity or stock purchase plan (includes any plan where employee has the option to defer).
7. Cost of group term life insurance over \$50,000.
8. Directors' fees.
9. Disability pay if received as a benefit of employment (includes third party plan).
10. Employee contributions to cost of fringe benefits.
11. Employer paid death benefits.
12. Excess employee discounts.
13. Golden parachute payments.
14. Income from guaranteed annual wage contracts.
15. Income from jury duty.
16. Income from wage continuation plans (includes retirement incentive plans and buyouts).
17. Income received as a result of a covenant or agreement not to compete.
18. Interest on below market loans.
19. Moving expense reimbursements (follow Federal rules but nonreimbursed expenses are not deductible).
20. Gain on the sale of business property from Form 4797 - *for tax years beginning after 12/31/2000.*
21. Preretirement distributions from retirement plans (except previously taxed income from deferred plans).
22. Prizes, awards and gifts - if connected with employment.
23. Profit sharing.
24. Royalties (unless derived from registered copyrights, patents or trademarks).
25. Severance pay.
26. Sick and/or vacation pay.
27. Stipends - if work required (vow of poverty not recognized).
28. Stock bonus incentive plans.
29. Stock options - taxed when exercised on amount indicated on W-2 form (market price less option price).
30. Strike benefits paid by employer.
31. Supplemental unemployment pay paid by employer.
32. Taxes paid by employer on employee's behalf.
33. Tips.
34. Union steward fees.

2001 DUE DATES

Due dates for filing city tax returns and remitting payments in 2001 are as follows:

2000 INCOME TAX RETURNS

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Calendar Year Taxpayers (Individuals)	IR-22 or IR-25	April 16, 2001 (Monday)
Calendar Year Taxpayers (Businesses)	BR-25	April 16, 2001 (Monday)
Fiscal Year Taxpayers (Individuals)	IR-22 or IR-25	15th day of 4th month following end of fiscal year
Fiscal Year Taxpayers (Businesses)	BR-25	15th day of 4th month following end of fiscal year

2001 ESTIMATED TAX

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Declaration of Estimated Tax	IT-21 or IR-22	April 16, 2001 (Monday)
2nd Quarter	IT-18	June 15, 2001
3rd Quarter	IT-18	September 15, 2001
4th Quarter	IT-18	December 15, 2001

2001 EMPLOYER'S WITHHOLDING RETURNS

<u>QUARTER</u>	<u>PERIOD</u>	<u>FORM</u>	<u>DUE DATE</u>
1st Quarter	January, February and March	IT-11	April 30, 2001
2nd Quarter	April, May and June	IT-11	July 31, 2001
3rd Quarter	July, August and September	IT-11	October 31, 2001
4th Quarter	October, November and December	IT-11	January 31, 2002
YEAR END	Reconciliation of W-2s	IT-13	January 31, 2002

2001 EMPLOYER'S DEPOSITS OF WITHHELD

MONTHLY TAX LIABILITY

	<u>FORM</u>	<u>DUE ON:</u>
\$1.00 - \$300.00 (quarterly payments required)	IT-11	Last day of the month following the end of the calendar quarter
\$301.00 - \$1,000.00 (monthly payments required)	IT-15	15th day of the following month
\$1,001.00 or greater (semimonthly payments required)	IT-15	5 banking days after the 15th and the last day of the month

FILING NOTES

- The city in which a taxpayer lives or works may not be the same city that appears in his/her home or work address. The same zip code may contain two or more cities, villages or unincorporated areas. If you need to confirm the city in which a taxpayer lives or works, call our office at (614) 645-7370.
- A husband and wife, in any taxable year, may elect to file separate or joint returns, regardless of Federal filing election. If filing jointly and you have received a pre-encoded return, you should use the account number shown thereon when filing returns and declarations and making estimated payments. There is no mathematical tax advantage for a husband and wife to file separate City returns.
- All cities except Harrisburg and Lithopolis give full credit for tax documented as correctly paid to the city or cities in which income was earned. Harrisburg and Lithopolis only give credit for tax paid on income earned in Harrisburg and Lithopolis, respectively.
- If city tax on all income is completely and correctly withheld, taxpayers are not required to file individual income tax returns (does not apply to Harrisburg and Lithopolis residents). Taxpayers who receive a pre-encoded return, must file that return with supporting documentation to have their account inactivated.
- To receive a deduction for employee business expenses, a taxpayer must be **required** to file **Form 2106** for Federal tax purposes.
- Affiliated corporations may not deduct a loss from any other corporation having a taxable profit and the operations of any affiliated corporation may not be taken into consideration in computing the net profits or the business allocation formula of another.
- Columbus city tax is not imposed upon employer paid health insurance premiums for 2% stockholder employees of an S-Corporation.
- Partnerships are required to pay, on behalf of partners, tax on all net profits determined to have been earned in Columbus, Grove City or Worthington. If a partnership's net profits or losses earned within a taxing jurisdiction are distributed among partners in a nonproportional manner (i.e. net loss of \$10,000 is distributed as a \$20,000 gain to partner A and a \$30,000 loss to partner B), the partnership must pay the tax on all gain distributions (\$400 tax due for partner A) before any loss distributions can be used (by partner B) to offset other unincorporated business gains.
- Figures shown on the individual and business tax returns as well as the declaration of estimated tax may be rounded to the nearest whole dollar. Prior payments should be reported in the exact amount actually paid. No amount on any form should be rounded up or down in excess of the nearest dollar amount.

The Columbus Income Tax Division administers the municipal income tax for Columbus, Brice, Canal Winchester, Grove City, Groveport, Harrisburg, Lithopolis, Marble Cliff, Obetz and Worthington.