



Columbus Income Tax Newsletter

December 2004



E-FILE/E-PAY FOR THE CITY OF COLUMBUS

Early in the 1st quarter of 2005 the City of Columbus will implement an internet website that taxpayers and preparers will be able to use to electronically file and pay municipal taxes. Each taxpayer and preparer will be mailed a PIN number so they may begin accessing our tax system through the City of Columbus internet website to make payments, filings, and extensions accordingly. The filing of employer withholding payments and quarterly returns will be available. Also, declaration of estimated tax returns and payments will be available for individuals and business filings. Please stay tuned to www.columbus-tax.net for details.

STATE LAW CHANGES THAT AFFECT MUNICIPAL TAXATION

Ohio House Bill 95, enacted in 2003, changed the State law that regulates municipal income taxes. The following changes will take effect on January 1, 2004.

New definition of taxable wages – The Columbus City tax will be imposed and withholding will be required upon “Qualifying wages” as defined in Section 718.03 for the Ohio Revised Code. “Qualifying wages” are essentially Medicare (Form W-2 Box 5) wages less IRS Section 125 Cafeteria plans. Please see www.columbus-tax.net 2004 Filing Format W-2 Data via Magnetic Media for the details of calculating “Qualifying wages” for the City of Columbus taxation. For City of Columbus tax purposes “Qualifying wages” are to include both income from stock option compensation and contributions made to non-qualified deferred compensation plans.

New definition of taxable net profits – The Columbus city tax will also be imposed upon “Adjusted federal taxable income” as defined in Section 718.01(A)(1) of the Ohio Revised Code. “Adjusted federal taxable income” is essentially treating all business types (C Corporations, S-Corporations, Partnerships, Trusts and Fiduciaries, and REIT’s) as C Corporations with special additions and deductions per Section 718.01 of the Ohio Revised Code. These special additions and deductions include:

1. The deduction of intangible income to the extent this income is included within federal taxable income.
2. An amount equal to 5% of intangible income not directly related to the sale, exchange, or other disposition of property described in Section 1221 of the Internal Revenue Code deducted from “Adjusted federal taxable income” shall be added back as taxable income.
3. The addition of losses and deduction of gains related to IRS Section 1221 and IRS Section 1231 when calculating “Adjusted federal taxable income”. Gains from IRS Section 1245 or 1250 are not to be deducted when calculating “Adjusted federal taxable income”
4. In the case of Real Estate Investment Trusts (REIT’S) add all amounts with respect to dividends to, distributions to, or amounts set aside for or credited to the benefit of investors, which have been allowed as a deduction in the computation of federal taxable income.
5. In the case of a non C Corporation, guaranteed payments and other similar amounts paid or accrued to a partner, former partner, member, or former member shall not be allowed as a deduction when calculating “Adjusted federal taxable income”.
6. In the case of a non C Corporation amounts paid or accrued to a qualified self-employment retirement plan, to or for health insurance plan, or for life insurance plans with respect to an owner or owner-employee shall not be allowed as deduction when calculating “Adjusted federal taxable income”

Allocation of Net Profits on business income – In accordance with Section 718.02 of the Ohio Revised Code a business or profession conducted within and without the boundaries of a municipal corporation is required to use the three part allocation apportionment formula when calculating net profits for municipal taxation.

Consolidated Business returns – In accordance with Section 718.06 of the Ohio Revised Code each municipality is required to accept consolidated returns of an affiliated group of corporations. Under City of Columbus Code Section 361.24 only those corporations of an affiliated group with nexus are to be included within the calculation of net profits. Each of the corporations with a nexus to file, shall file a separate Schedule Y allocation apportionment formula. The gains and losses from these apportionment formulas of corporations with nexus to file can then combine accordingly.

COLLECTION GROUP TAX RATES

Tax rates to be used for the tax year 2004 returns and the tax year 2005 declarations and withholding returns for the cities and villages in our collection group are as follows:

Columbus	2%	Marble Cliff	2%
Groveport	2%	Brice	1%
Obetz	2%	Lithopolis	1%
Canal Winchester	2%	Harrisburg	1%

Please note the City of Grove City is no longer within the collection group administered by the City of Columbus. If you have any questions relating to the City of Grove City, please contact the local Regional Income Tax Agency (RITA) at (614)538-0512.

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: www.columbus-tax.net

COLUMBUS TAXATION OF CONTRIBUTIONS TO NONQUALIFIED DEFERRAL PLANS

Prior to January 1, 2004 Columbus tax was not imposed upon employers’ contributions to non-qualified deferred compensation plans (SERPs, etc.) at the time of contribution. Distributions from these plans were taxed in the year of distribution to the city where the income was originally earned. After January 1, 2004, Columbus tax will be imposed upon contributions to non-qualified plans at the time these contributions are included in “Qualifying wages” as defined in Section 718.03 of the Ohio Revised Code. After that date, distribution from non-qualified plans will not be taxed.

AUDIT ALERTS

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.).

EXTENSION OF FILING DATES

Extensions of six months for filing forms IR-22, IR-25 and BR-25 and may be requested 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 IR-21 and BR-21 (Declaration of Estimated Tax) and IT-11 (Quarterly Return of Tax Withheld) may not be extended. Preparers please do not provide names or EIN numbers for taxpayers that are not required to file with the City of Columbus with extension requests.

YEAR 2005 MAILING ADDRESSES

Mailing addresses to be used in 2005 are as follows:

- Withholding returns and payments (lockbox):
CITY TREASURER
PO BOX 182489
COLUMBUS OH 43218-2489
- Individual and Business returns and payments (lockbox):
CITY TREASURER
PO BOX 182158
COLUMBUS OH 43218-2158
- General correspondence (office address):
COLUMBUS INCOME TAX DIVISION
50 W GAY ST 4TH FL
COLUMBUS OH 43215-9037

INDIVIDUAL RESIDENTS THAT ARE SHAREHOLDERS IN S-CORPORATIONS

Commencing with tax year 2003 individual Columbus residents with income from S-Corporations are no longer be taxed on their shareholder income due to residency. Also, the gains and losses from S-Corporations shall not be taken into consideration when calculating taxable income for resident and non-resident shareholders. For the City of Columbus S-Corporations are taxed as entities on the net profits of the corporation before distributing any shares or dividends to shareholders.

EMPLOYER WITHHOLDING TAX ON INTERSTATE EMPLOYEES

Pursuant to Chapter 361 of the Columbus City Codes tax is imposed upon all employee wages that are earned for worked performed within the City. Additionally, the tax is imposed upon the total qualifying wages of all resident employees, regardless of the earning location. Employers are required to withhold the tax from all employee wages that are earned for work performed in the City. Employers are permitted, but not required to withhold tax on resident employees' wages that are not earned in the City. As a result of these requirements, withholding is required on the wages of all terminal staff (mechanics, dockworkers, dispatchers, etc.) working in or at terminals located within the City. Withholding is required from drivers' wages on intrastate routes that are earned for time spent in or at the terminal. In lieu of exact time sheets, 10% of a driver's wage is accepted by the City as having been earned at the terminal. If the full 2% tax is withheld from the total wages of all drivers, the City will refund the tax withheld (less 10%) on the wages of all non-resident intrastate drivers upon request of a refund claim form that is to be filed by the non-resident drivers in the year following the year of withholding. For drivers' wages on interstate routes the City will refund 100% of the tax withheld upon receipt of a refund claim form filed by non-resident drivers in the year following the year of withholding in accordance with Public Law 91-569. Public Law 91-569 also includes interstate railroad, water, and aviation employees.

2004 FILING FORMAT FOR W-2 DATA VIA MAGNETIC MEDIA

It is important for employers to realize that for tax year 2004 there have been significant changes in the requirements concerning withholding local tax on employee wages. The Ohio General Assembly passed House Bill 95 in July of 2003, effective January 1, 2004, mandating that all Ohio municipalities assess payroll withholding taxes on "Qualifying wages" as defined by Section 718.03 of the Ohio Revised Code. Please see our website at www.columbustax.net for the details of the "Safe Harbor" rule for "Qualifying Wages" and for proper filing format using magnetic media. Also, for tax year 2004, only filings received on floppy diskette or CD-ROM will be accepted. Filings on magnetic tapes will no longer be accepted by our office.

ARMED FORCES EXTENSION OF DEADLINE

The City of Columbus Income Tax Division has adopted the criteria followed by the Internal Revenue Service with regard to the extension of the deadlines related to the filing of returns, payment of taxes, and filing of claims for the refund pursuant to Columbus City Codes Chapter 361 Income Tax for those members of the Armed Forces serving in a combat zone or assigned to qualifying service outside of a combat zone. Please see www.columbustax.net for details and examples.

INCORRECT AND OVER WITHHOLDING BY EMPLOYERS

If an employer has withheld local tax to the wrong city, when tax is owed to the City of Columbus, then the individual taxpayer may qualify for an abatement of late payment penalty and interest upon written request and justification made to the supervisor of the audit section handling your account. The assessment of late payment penalty and interest may apply on outstanding tax due if there is a difference between the statutory tax rate due from the city where taxes were withheld in error and the city where taxes are due. If the individual taxpayer requests a refund of timely paid taxes from another city to which taxes have been paid in error and the refund check is endorsed and submitted to the City of Columbus or a copy of the original refund check is provided along with payment of tax due within ten (10) days of receipt of that refund, neither penalty nor interest will be assessed.

If an employer has withheld city tax at a rate higher than the statutory rate, only the employer will be refunded the additional local tax withheld upon written request. Individual taxpayers filing with the City of Columbus will receive credit only for local taxes in the amount statutorily due in the city where the income is earned.

YEAR 2005 INTEREST RATE

For 2005, the interest rate used by the Cities of Columbus and the Villages of Brice, Canal Winchester, Harrisburg and Marble Cliff is 5% per annum. The annual rate used by Oetz is 6% and the rate for all other municipalities in our collection group continues to be 18%.

CITY TAX FORMS AND "PACKAGE X"

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 by the form 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 whenever possible. All forms can be found and downloaded at our website www.columbustax.net. In recent years we have noticed that a growing number of our city returns are prepared using forms received via our website. Each of the forms on our website can be "filled-in" on-line and printed by the user. The Division hopes that in the near future annual returns will be available under our E-file/E-pay website. The Columbus Income Tax Division continues to encourage taxpayers to use the pre-encoded returns we mail to them. Using the pre-encoded forms with the imaged data from our records does help in expediting the processing of the return whether it is a refund request or a cash payment being made to the Division. We acknowledge that some practitioners will use their supply of forms and cannot integrate the taxpayer's imaged forms with their software. Because of the availability of city tax forms on the internet, the blank city tax forms provided to practitioners in a format known as the City's Package X is no longer the best use of resources. The Columbus Income Tax Division will no longer mail a paper version of the Package X because of the aforementioned reasons. If a practitioner does not have access to the Internet or would still like to receive all of the tax forms in one package, the Division will mail a version of the Package X in CD format. This CD will include all city tax forms. If you have not received this information by January 15, 2005, then a request in writing for this CD should be submitted to:

ATTN: Forms CD
Columbus Income Tax Division
50 W Gay Street 4th Floor
Columbus OH 43215-9037

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 semi-monthly 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, semi-monthly 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 semimonthly or monthly payments. Penalty (50% of the tax liability for Columbus, Brice, Harrisburg and Marble Cliff; 10% for all others in our collection group) and interest (5% for the Cities of Columbus, Brice, Canal Winchester, Harrisburg and Marble Cliff, 6% for Oetz and 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, 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 ended 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 municipalities in our collection group 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.

2005 DUE DATES

Due dates for filing city tax returns and remitting payments in 2005 are as follows:

2004 INCOME TAX RETURNS

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Calendar Year Taxpayers (Individuals)	IR-22 or IR-25	April 15, 2005
Calendar Year Taxpayers (Businesses)	BR-25	April 15, 2005
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

2005 ESTIMATED TAX

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Declaration of Estimated Tax	IR-21 or IR-22	April 15, 2005 - Individuals and Businesses
2nd Quarter	IR-18	July 31, 2005 - Individuals June 15, 2005 - Businesses
3rd Quarter	IR-18	October 31, 2005 - Individuals September 15, 2005 - Businesses
4th Quarter	IR-18	January 31, 2006 - Individuals December 15, 2005 - Businesses

2005 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, 2005
2nd Quarter	April, May and June	IT-11	July 31, 2005
3rd Quarter	July, August and September	IT-11	October 31, 2005
4th Quarter	October, November and December	IT-11	January 31, 2006
YEAR END	Reconciliation of W-2s	IT-13	February 28, 2006

2005 EMPLOYER'S DEPOSITS OF TAX WITHHELD

<u>MONTHLY TAX LIABILITY</u>	<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 wage income is completely and correctly withheld those taxpayers having no other income sources reflecting gains or losses 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.
- Partnerships are required to pay, on behalf of partners, tax on all net profits determined to have been earned in the City of Columbus. If a partnership's net profits or losses earned within a taxing jurisdiction are distributed among partners in a non-proportional manner (i.e. a 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.
- For items that are taxable and non-taxable, please see our website at www.columbustax.net.

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

INCOME TAX DIVISION

50 W. Gay Street, 4th Floor
Columbus, Ohio 43215-9037

CHANGE SERVICE REQUESTED

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