



Columbus Income Tax Newsletter

December 2003



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 "qualified wages" as defined in Section 718.03 of the Ohio Revised Code. "Qualified wages" are essentially Medicare (Box 5) wages and, for Columbus tax purposes, will include both stock option compensation and contributions 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 federal taxable income before net operating losses and special deductions and after the deduction of intangible income which is computed at net 5% for expenses. Columbus will continue to disallow a net operating loss carry-back or carry-forward deduction.

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 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. All forms can be found and downloaded at our website at: www.columbus-tax.net. In recent years we have noticed that a growing number of our city tax returns are prepared using forms received via our web site. Last year we added versions of our forms to our website that could be "filled-in" on-line and printed by the user. Unfortunately, we are not yet able to electronically receive these forms but we welcome their use as the data on the forms is easy to read. The Columbus Division of Income Tax 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. We acknowledge that some practitioners will use their own supply of forms and cannot integrate the taxpayer's imaged forms with their print 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 our resources. This year the Columbus Income Tax Division will not be mailing a paper version of the Package X packet because of the aforementioned reasons. If a practitioner does not have access to the Internet or would still like to receive all 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 and can be acquired by making a written request to our offices at:

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

YEAR 2004 INTEREST RATE

For 2004, the interest rate used by the Cities of Columbus and the Villages of Brice, Canal Winchester, Harrisburg and Marble Cliff is 4% per annum. The annual rate used by Obetz is 6% and the rate for all other municipalities in our collection group continues to be 18%.

YEAR 2004 MAILING ADDRESSES

Mailing addresses to be used in 2004 are as follows:

-Withholding returns and payments (lockbox):

CITY TREASURER
 DEPT 448
 COLUMBUS OH 43265-0448

-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

COLLECTION GROUP TAX RATES

Tax rates to be used in 2004 for tax year 2003 returns and tax year 2004 declarations and withholding returns for the cities and villages in our collection group are as follows:

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

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

PAID PREPARERS PTINs

Since we have no way of tracking the new federal PTINs, paid preparers should continue to use their SSN/EIN when preparing city returns.

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 the 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 that these contributions are included in "qualified wages" as previously defined. After that date, distributions from 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.).

S-CORPS & LLCs

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 or Brice resident individual who is a shareholder in an S-Corp will be taxed on his/her share of the S-Corp's net profits that are not subject to payment by the corporation as discussed above. 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 a corporation, partnership or individual (single member) based upon the manner in which it files its federal tax return. Qualified Subchapter S subsidiary corporations (Q-Subs) are taxed to the parent (same treatment as Federal).

EXTENSION OF FILING DATES

Extensions of up to six months for filing forms IR-22, IR-25 and BR-25 and may be granted on or before the original due date of the return being extended. Extensions of up to one month are permitted for filing Form IT-13 (Annual Reconciliation of Tax Withheld). 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.

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 (4% for the Cities of Columbus, Brice, Canal Winchester, Harrisburg and Marble Cliff, 6% for Obetz 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 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 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 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 qualified deferral plan (401K and the like) - taxed in the year earned, deferral not permitted.
4. 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).
5. Contributions made by or on behalf of employees to a non-qualified deferred compensation plan - taxed in the year no longer considered at substantial risk of forfeiture.
6. Cost of group term life insurance over \$50,000.
7. Directors' fees.
8. Disability pay if received as a benefit of employment (includes third party plan).
9. Employee contributions to cost of fringe benefits.
10. Adoption assistance payments.
11. Excess employee discounts.
12. Golden parachute payments.
13. Income from guaranteed annual wage contracts.
14. Income from jury duty.
15. Income from wage continuation plans (includes retirement incentive plans and buyouts).
16. Income received as a result of a covenant or agreement not to compete.
17. Interest on below market loans.
18. Moving expense reimbursements (follow Federal rules but nonreimbursed expenses are not deductible).
19. Pre-retirement distributions from retirement plans (except previously taxed income from deferred plans).
20. Prizes, awards and gifts - if connected with employment.
21. Profit sharing.
22. Royalties (unless derived from registered copyrights, patents or trademarks).
23. Severance pay.
24. Sick and/or vacation pay.
25. Stipends - if work required (vow of poverty not recognized).
26. Stock bonus incentive plans.
27. Stock options - taxed when exercised on amount indicated on W-2 form (market price less option price).
28. Strike benefits paid by employer.
29. Supplemental unemployment pay paid by employer.
30. Taxes paid by employer on employee's behalf.
31. Tips.
32. Union steward fees.
33. Ordinary income from recapture of depreciation.

2004 DUE DATES

Due dates for filing city tax returns and remitting payments in 2004 are as follows:

2003 INCOME TAX RETURNS

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Calendar Year Taxpayers (Individuals)	IR-22 or IR-25	April 15, 2004
Calendar Year Taxpayers (Businesses)	BR-25	April 15, 2004
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

2004 ESTIMATED TAX

	<u>FORM</u>	<u>DUE WITH PAYMENT</u>
Declaration of Estimated Tax	IR-21 or IR-22	April 15, 2004 - Individuals and Businesses
2nd Quarter	IR-18	July 31, 2004 - Individuals June 15, 2004 - Businesses
3rd Quarter	IR-18	October 31, 2004 - Individuals September 15, 2004 - Businesses
4th Quarter	IR-18	January 31, 2005 - Individuals December 15, 2004 - Businesses

2004 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, 2004
2nd Quarter	April, May and June	IT-11	July 31, 2004
3rd Quarter	July, August and September	IT-11	October 31, 2004
4th Quarter	October, November and December	IT-11	January 31, 2005
YEAR END	Reconciliation of W-2s	IT-13	January 31, 2005

2004 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 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.
- 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 or Grove City. 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.

The Columbus Income Tax Division administers the municipal income tax for Columbus, Brice, Canal Winchester, Grove City, 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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