

Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA/ABV, CBA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Richard D. Hillabrand, CPA
Angela L. Bursby, CPA
Jeffrey C. Quinlan, CPA

Balance sheet

Municipal Uniform Tax

By Angela Bursby, CPA

In an effort to streamline the complicated and, let's be honest, frustrating municipal income tax system, House Bill 5 (HB 5) took effect on January 1, 2016. Basically, this was passed so that all cities would operate under the same set of standards in order to lessen the tax reporting burden by employers who operated in or provided services in multiple cities.

An important provision for residents of a municipality is that all income and losses from various business activities (i.e. rentals, businesses, farms, etc.) are offset against each other on the city tax return. If the net amount results in income, it will be taxed in the current year, and if it is a loss, it will become an NOL carryforward beginning for the tax year 2017. The current year net loss and NOL carryforward cannot be used to offset W-2 wages on the city income tax return; it can only be carried forward to offset future business income.

Also in effect for 2016 were changes in the Occasional Entrant rules which apply to employers providing services in various municipalities. The new rules state that in order for an employee to be subject to city withholding in a non-resident city (outside of their principal place of work for the employer), the employee must perform services at a worksite location in that city for 20 days. During that 20 days, the employee continues to have the city tax withheld for the business's principal place of business. On the 21st day, the employee then begins to have the worksite city tax withheld. An exception to the 20-day rule is that if the employer reasonably expects to be at a worksite location in another city for more than the 20-day threshold, then the employer should withhold the city tax for the worksite location from day 1. HB 5 also allows for a new category for a "Small Employer" who would be considered exempt from the occasional entrant rules and only needs to withhold city tax on its employees for the principal place of business, no matter where the employees performed the services. To qualify as a "Small Employer", gross receipts for the prior year must have totaled less than \$500,000 and the business must have a fixed location in Ohio.

HB 5 changed some of the due dates and filing thresholds as well. Quarterly estimated tax payments are now required by a taxpayer when prior year tax is \$200 or more after withholding and credits for taxes paid to other municipalities. For employers, city withholding is required to be submitted monthly (instead of quarterly) when the prior year remittance is more the \$2,399 or if the remittance totals more than \$200 in any month of the preceding quarter. Also for employers, the monthly withholding for municipalities is due by the 15th day of the following month and quarterly remittance is due by the last day of the month following the last day of the quarter. The due date for an extended city return is now due on October 15, rather than the last day of October.

The one provision of HB 5 that went into effect on January 1, 2017, is that all municipalities must now allow Net Operating Losses (NOL's) to be carried forward for five years. There is a phase-in to this provision for cities that did not previously allow for NOL carryforwards. This limits the allowable deduction per year to 50% of the available NOL until the phase-in period ends and the NOL's become fully deductible beginning in 2023.

If you require our assistance in the calculation of your allowable NOL for the tax year or with implementation of anything for HB 5, please contact us.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.

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