

CITY OF TOLEDO



Division of Taxation and Treasury

January 15, 2004

Dear Tax Practitioner:

This annual update is for your use in preparing City of Toledo Tax Returns.

EMPLOYER WITHHOLDING

This past summer, the State of Ohio amended the Ohio Revised Code that changed the way municipal tax must be reported, under House Bill 95.

Effective January 1, 2004, all employers must withhold municipal tax on "qualifying wages."

Qualifying wages are normally reported in the Medicare Wage box 5 of Federal W-2 form. To arrive at the total to be placed in the Municipal wage box of the W-2, an employer must include:

1. The income reported in the Medicare box.
2. Any Supplemental Unemployment Compensation Benefits.
3. Income from the exercise of Stock Options.
4. Non-Qualified Deferred Compensation.

Earned Compensation is subject to City withholding even if not subject to Medicare tax such as domestic employees and family owned business.

Please note that employees who are Medicare exempt are still subject to the City tax withholding requirements for "qualifying wages" even though on their W-2's that box is blank for Medicare wages.

Please note that Internal Revenue Code Section 125 wages, "cafeteria plans", are NOT included in the definition of the Medicare wages and therefore should NOT be deducted from the Medicare Wage box. To see the full text of these changes in Ohio law, please see http://www.omunileague.org/2003_meetings/95.pdf

HOUSE BILL 95(2003) MAJOR AMENDMENTS TO ORC 718

The following information presents new provisions appearing in ORC 718. A brief explanation is given followed by the Section number of the code.

1. Annual return due date and extensions - For taxable years beginning after 2003, the due date is April 15th for calendar year filers, and the 15th day of the fourth month following the end of the taxable year for fiscal year filers. [Sec. 718.05(B)]. For tax year 2004, extensions are granted until the end of the month following the month to which the federal date has been extended [Sec. 718.05(D)].

2. Self-Employed health insurance deduction – As of 2004, amounts deducted on the front of the 1040 for the self-employed health insurance deduction will no longer be honored in order to comply with *Sec. 718.01 (A)(g)(ii)*.
3. Non-qualified deferred compensation plan - Amounts deferred to these plans are taxable upon deferral. However, provisions are made for the refund of tax withheld if the deferred amounts are not subsequently paid to the taxpayer. [*Sec. 718.021*]
4. Ohio Business Gateway (OBG) - This is a central processing system run by the Ohio Department of Administrative Services. Beginning in 2005, it will be the option of businesses to file their net profit return, pay their tax, and obtain extensions via the OBG, rather than file directly with each municipality. The payments (and required documentation) will then be forwarded to the municipalities in accordance with the allocation shown by the taxpayer. Beginning in 2007, employers shall also have the option of filing their withholding payments through the OBG. The provisions state specifically that there is no limitation placed on the “ability of any municipal corporation to administer, audit, and enforce the provisions of its municipal income tax”. [*Sec. 718.051*]
5. Qualifying wages - The employee wage figure on which the employer must withhold, as defined by Sec. 3121(a) of the Internal Revenue Code (IRC). This is essentially Box 5 of Form W-2, and represents the “Medicare” wage. It *includes* amounts placed in non-qualified deferred compensation plans, but *excludes* IRC Sec. 125 (“cafeteria plans”). The qualifying wage figure also becomes the taxable wage figure, but municipalities are not prohibited from taxing additional, non-wage income (such as 1099 income) [*Sec. 718.03*].
6. State Board of Tax Appeals - Rather than the decision of the local income Board of Appeals/Review being subsequently appealed (by the taxpayer or the Tax Administrator) to a court, the option will now exist to instead make the appeal to the State Board of Tax Appeals. An appeal from that Board can then either be made to the court of appeals for the county in which the municipality involved in the appeal is situated or to the Supreme Court of Ohio. [*Sec. 718.11 (second to last paragraph), 5717.011(A-D), and 5713(G)*]
7. Telephone companies are now subject to tax. [*Sec. 718.01(F)(6)*]
8. \$150 de minimus provision - This provision, which previously was Sec. 718.03, has been eliminated entirely from ORC 718.

SUPPORTING SCHEDULES

As a reminder, we ask that you attach all supporting schedules, i.e., W-2's, 1099's, Schedule C's, Schedule E's, K-1's, etc. Please be sure to include the second page of Schedule C showing cost of labor included in cost of goods sold. If the schedules are missing, we will ask the taxpayer to furnish the information.

If your client is also required to file a Non Resident Refund Form (NRR), please file all schedules together on the same form, and **DO NOT** submit separate tax returns for the same taxpayer.

PRE-PRINTED FORMS

We ask that you utilize your client's preprinted forms, as it makes processing at our end more accurate and efficient. Additional tax forms and the ordinance and regulations are available at the following web address: <http://www.ci.toledo.oh.us/> by selecting.

- Departments
- Finance
- City of Toledo income tax information

When using forms from the Internet be sure to include your client's pertinent information, such as the name, **account number**, social security number, and the filing year of the return.

TELEFILING PROGRAM

We encourage withholding agents to take advantage of electronic remittance via our telefiling program. A form to set up an account for telefiling can be downloaded from the website. If you have additional information regarding this program, call (419) 245-1662.

FINAL RETURNS

Finally, our delinquent filing program is in full swing. If a taxpayer owed for 2002 and is now fully withheld and no longer owes Toledo on any other income, you should still file a 2003 return and distinctly mark it FINAL RETURN, even if no tax is due. This will assist us in closing out unnecessary accounts and prevent the issuance of a delinquent filing notice at a later date.

Very truly yours,



John Zawisza, Tax Administrator